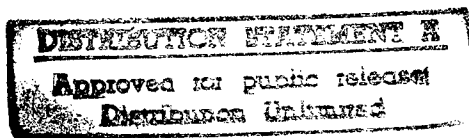


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28 October 1991

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SOUTHEAST ASIA/PACIFIC

Malaysian Criticism of 'Human Rights Diplomacy' Reported

92P30002A Beijing SHIJIE ZHISHI [WORLD AFFAIRS] in Chinese No 1086, 1 Sep 91 p 4

[Article by Shu Lin (5289 7207): "Malaysia Resists 'Human Rights Diplomacy'"]

[Text] "We do not agree that there is only one definition for democracy or that there is only one special standard by which to decide if a political system is democratic. Similarly, standards for human rights are different in every society. Even in the same society, different classes have different standards." On 19 July at the 24th ASEAN foreign ministers meeting, Malaysian Prime Minister Mahathir gave the opening address during which he strongly attacked developed countries for forcing Western standards of "democracy, freedom, and human rights" on developing countries.

In recent years some Western countries have practiced "human rights diplomacy" in their international dealings. They require other countries to behave in accordance with Western standards of "human rights" or else they adopt economic sanctions or even subversive measures to interfere in other countries' internal affairs. These kinds of arbitrary actions have caused many Third World countries, including ASEAN countries, to be disgusted and put up resistance. In June of this year, during the ASEAN-EC ministerial meeting held in Luxembourg, the EC criticized the ASEAN countries for some human rights practices that did not meet their standards and announced that aid and expansion of trade with ASEAN would be determined by whether there are improvements in human rights in these regions. The ASEAN countries voiced strong criticism of this and, in the recent ASEAN foreign ministers meeting, unanimously agreed to resolutely oppose trade or aid that carried conditions and oppose discussing economic and trade cooperation and human rights. The conference held that developed countries ignore social, historical, and cultural differences among nations and try to force their own standards for human rights and environmental issues on developing countries. Or else, using a biased and narrow explanation of these problems, they harm bilateral relations while trampling on developing countries' sovereignty.

Malaysia has had the strongest reaction to this problem because the International Labor Rights, Education, and Research Fund has asked the United States to abolish its preferential trade with Malaysia because of Malaysia's violation of human rights. Malaysian Prime Minister Mahathir pointed out that when Western countries use the protection of "democracy, freedom, and human rights" as a condition for developing economic, trade, or investment relations with foreign countries, this is actually just another way of practicing protectionism.

According to Malaysian public opinion, Western developed countries have repeatedly used "human rights diplomacy" to control world economics and politics. Mahathir said that, unlike developed countries, the governments of developing countries are constantly facing the problem of finding a balance between guaranteeing the nation's economic development and tolerating the human rights activities of individuals or certain groups, activities which frequently shatter social stability and impede economic development. He pointed out that one lesson learned by ASEAN over the past 24 years is that only when the citizens of the member countries and the entire region are free of economic oppression can there be peace, stability, democracy, and freedom. Thus, all of the ASEAN countries see balancing individual human rights, social needs, and political stability as a problem that needs priority handling. He believes that world trade should not be conditional but open. Attaching human rights conditions to economic dealings shows that developed countries are adopting biased economic policies and exclusionary trade policies and is a sign of selfish protectionism. As for the United States requesting that ASEAN join the United States in putting pressure on Burma because of human rights, Mahathir said, "We are not going to interfere in others' internal affairs, nor do we allow others to interfere in our internal affairs."

Mahathir's thinking on human rights is consistent with that of "The World Human Rights Announcement." Several years ago, many developing countries believed that the problem of human rights was not just individual rights and basic freedoms, but also should include national [minzude] rights and basic freedoms. It should guarantee the collective rights of all nationalities and peoples; it should link the struggle to protect human rights with the struggle to oppose invasion, achieve national independence, oppose foreign oppression, and develop the national economy. Mahathir pointed out that the ASEAN countries have never voiced any objection to the democracy that should be enjoyed by the people or the opportunities for development that should be enjoyed by individuals. However, in the past, Western standards of human rights have been merely biased standards advanced in accordance with their own social, historical, and cultural background, and they can only be representative of the interests of developed, Western countries.

In May of this year, the United Nations Development Project (UNDP) issued a report on human rights which ranked the freedom of Malaysians 55th out of 88 countries. Mahathir criticized this report, saying that it was unfair and irrational to compare the freedom and democracy of different countries. He believes that this report, which quantifies human rights, is "truly ridiculous," because it is well known that Israel murders Arabs, yet it was ranked higher than Malaysia (34th). Mahathir asked mockingly, "A European country has recently passed a law legalizing sexual relations between 12-year-old boys and girls. This is their freedom, but do we have to do this to have human rights? Some European countries have legalized striptease and pornographic movies; do we have to do this in order to have human rights?" This statement by Mahathir received the widespread support and approval of Malaysian public opinion.

NATIONAL AFFAIRS, POLICY

Current Status of Shareholding by Workers

92CE0020B Chongqing TIGAI XINXI [SYSTEM
REFORM NEWS] in Chinese No 14, 20 Jul 91 p 19

[Article by Han Chunli (7281 2504 4539): "Current Status of Stockholding by Workers"]

[Text] According to incomplete data on 16 provinces and municipalities and four cities with provincial-level economic decision-making authority, workers in over 85 percent of the enterprises experimenting with the shareholding system currently own stocks. The total value of worker-held stocks exceeds 150 million yuan, becoming a new noteworthy phenomenon.

Since reform and opening up, the state began experimenting with the shareholding system to develop a socialist planned commodity economy and identify methods of organizing an enterprise that are compatible with such an economy. Meanwhile, workers also began to hold stocks, basically in the following ways:

In the first scenario, peasants join an enterprise bringing with them labor and stocks, thereby turning the enterprise into one whose employees own stocks. Such enterprises currently exist in large numbers among township and town enterprises, with over 20,000 in Wenzhou alone. In the second scenario, a number of what used to be collectively owned enterprises have turned themselves into enterprises with stockholding workers based on the sources of investment, depending on historical circumstances. In Jilin Province, more than 300 collective enterprises have undergone such a change, achieving better economic efficiency. In the third scenario, a number of enterprises owned by the whole people have issued stocks to their workers in an effort to enhance their coalescing force and raise funds. Moreover, they have evaluated existing properties and converted them into stocks. The result is a host of enterprises whose workers own stocks. Right now there are fewer such enterprises than those in the first two categories, but they are working out fairly well.

In China, employees started to hold stocks only recently and then only on a small scale. Still their very emergence has broken the nation's traditional monolithic ownership system. Worker stockholding is a useful experiment that has helped establish a mechanism within the enterprise for mutual supervision and restraint and fully mobilize the initiative, enthusiasm, and creativeness of the rank-and-file worker. It has also been endorsed by most workers. According to a survey on worker stockholding in Fushun, 60 percent of the workers approved of stockholding by workers.

Worker stockholding is still in an experimental stage in enterprises owned by the whole people. The state has yet to promulgate any laws or administrative regulations on the subject. However, local rules made by some provinces and municipalities to regulate enterprises experimenting with the shareholding system do include some

broad provisions relating to stockholding by workers. In the course of their experiments, the enterprises have also run into some practical and theoretical problems, such as the theoretical basis for worker stockholding in China, the sources of funds, and the absence of uniform laws and regulations. Another issue is the fact that some enterprises regard stocks holding by workers as a form of welfare for their employees. All this makes it imperative that the government agencies involved promulgate rules and regulations without delay to set up an institutional framework so that stockholding by workers can develop healthily.

PROVINCIAL

New Effort To Revive Northern Shaanxi Economy

92CM0017A Xian SHAANXI RIBAO in Chinese
24 Aug 91 pp 1, 2

[Article by Zhang Pengxing (1728 0514 5281): "Emanipate Thinking and Seize Opportunities To Hasten the Pace of Economic Development of the Northern Part of the Province—An Investigation Report on Tongchuan City, and on Yanan and Yulin Prefectures"]

[Text] Improvement of agriculture, development of transportation, and the exploitation of energy resources are the focus for building the economy of the northern part of Shaanxi Province during the Eighth Five-Year Plan and for the next 10 years. What can be done to concentrate closely on these three industries to hasten the pace of economic exploitation and development of the northern region in order to uplift industrial and agricultural production and various construction endeavors, thereby invigorating the northern region as well as the province as a whole, and thereby making the masses wealthy and causing Shaanxi's economy to prosper further? It was with this question in mind that I recently conducted a nearly 20 day investigation and study of Tongchuan City, and of Yanan and Yulin prefectures. On this trip, I visited 10 cities and counties, including Yaodian, Ganquan, Yanan, Wubao, Jiaodian, Dingbian, Hengshan, Shenmu, and Yulin, hearing reports in various districts, cities and counties. The investigation focused on control of river basins and desert areas, on farmland capital construction, and on the situation in some enterprises. On the problem of how to hasten the pace of economic development of the province's northern region, I listened to views and recommendations from various quarters over a wide area.

In recent years, I have been to northern Shaanxi numerous times, noting new changes each time. Thanks to the several decades of arduous struggle by the people in old liberated areas following the founding of the people's republic, and particularly the diligent efforts made in the more than 10 years of reform and opening to the outside world, very great changes have taken place in the province's northern region. The natural environment has been improved; the foundation that is agriculture has

been improved; and all sorts of facilities have been developed. Of particular note has been the discovery and exploitation of large coal fields and large gas fields in northern Shaanxi, which bring in their wake a new dawn in the vigorous development of the province. Wherever I went during a period of more than 10 days, I found a scene of cadres and the masses hard at work, a spirit of working hard for the prosperity of the country, and flourishing economic construction, which was inspiring and encouraging. It made one see the potential and the hope in the midst of hardships. In line with the requirements of the Eighth Five-Year Plan and the 10-year plan for the whole province, and the availability of resources in the northern region, hastening the pace of exploitation and development has become a major strategic task facing us that will brook no delay.

Hastening the pace of exploitation and development of the northern region is an important, integral part of the whole province's economic and social development strategy. It is the application and intensification in northern Shaanxi of the regional development strategy of "emphasize development of the central Shaanxi plain and active development of southern and northern Shaanxi." Like a large military campaign, this is a battle that must be fought well. First of all, it is necessary to understand more objectively and more fully the conditions and the hardships in developing the northern region, evaluating advantages and disadvantages there, and proceeding from realities for the formulation of feasible action plans. In an overall sense, the northern region's main advantages are the four following things:

First is vast land resources. The land area of the two prefectures and one city I visited is 84,000 square kilometers with a population of 5.25 million. This is 40.9 and 16.4 percent respectively of the totals for the whole province. Population density is 62 per square kilometer, far lower than the average 156 average density for the province as a whole. The cultivated area covers 15.624 million mu, which is 29 percent of the province, or 3 mu per capita, an amount that is almost three times the average for the province as a whole. However, erosion of the loess highlands is serious; the fertility of most of the cultivated land is inadequate; and irrigation has not been well developed. Numerous barren mountains and barren slopes, as well as large tracts of desert land have yet to be brought under control and developed. Many places grow grain by planting wide areas from which they harvest scant crops. Returns from the use of the land are very poor. However, this also offers potential. The land can be transformed and brought under control. It holds prospects for increased grain yields and the development of a diversified economy. Climatic conditions produce melons and fruits having a very high sugar content. The sugar content of the apples is even higher than that of American "snake" [5748] apples. They are very well received in markets. After 10 years of reform, an overwhelming majority of peasants there have enough to eat. Practice during the past several years shows results in bringing soil erosion under control there, and work on a project for the development of a 600,000 mu commodity

grain and nonstaple foods base in a flatland area of windblown sand has raised agricultural production one notch higher. Conditions exist for further development of the local economy and for fairly large scale industrial development.

Second is plentiful underground mineral deposits. In addition to Tongchuan's coal and Yanan's gas, following the prospecting and development of the Shenfu premium coal fields, sizable reserves were discovered in the natural gas fields of the Shaanxi-Gansu-Ningxia Basin. Comrades concerned have reported a rather high success rate in prospecting of the natural gas fields centering around Jingbian. The geological structure of the gas field is stable and covers a very wide area. Within a 1,200 square kilometer area, proven reserves of more than 100 billion cubic meters have been found. Forecasts call for extraction on a very large scale, the development of a gasification industry, large scale chemical fertilizer production, and very good prospects for providing gas to large and medium size cities. The exploitation and use of the large coal fields and large gas fields in these two counties, which rank as world class deposits, holds major strategic significance not only for the northern regions of Shaanxi Province, but for the economic construction of the entire province and the entire country as well. In addition to coal, petroleum, and natural gas are plentiful bauxite and quartz sand resources. One might say that "there are endless amounts of mineral deposits and that prospects for their exploitation are intriguing."

Third is a definite basis for development. One leadership team after another in the two prefectures and one city have made very great efforts to transform the local landscape, making major contributions. The current leadership team has a lot of vigor, and their work has shown very much improvement. During the Seventh Five-Year Plan, economic construction and the development of other endeavors proceeded fairly rapidly, substantial steps were taken in getting rid of poverty to become wealthy. Key projects and municipal government construction in Tongchuan as well as township and town enterprises that began from a fairly high starting point were done rather well. Yanan's four leading industries, namely petroleum, coal, cigarettes, and woolen textiles, and its for leading products, namely tobacco, fruit, sheep, and tubers saw coordinated development. The harnessing of river basins and the control of desert areas in Yulin Prefecture were very successful, and resources were exploited intensively. Exploitation of the entire northern region has begun, and a definite basis exists for further exploitation. More important is that the two prefectures and one city have organized their thinking on further development, drawing up development plans pretty well geared to local realities. They have suggested fairly workable measures, and they have begun to take action in accordance with the separate lines of thought and plans. One might say that "each is fighting its own war of advantage, and each is taking its own road to riches." It must be said that this is a not a very bad beginning.

Fourth is the extremely precious Yanan spirit. The existing foundation for the development of the northern region was won through the diligent efforts and the hard work of the people in this old liberated area over a period of many years. For a long time, soil erosion has been serious here, desertification has steadily encroached southward, the land is infertile, and droughts have been frequent. Following founding of the people's republic, the people of the old liberated area worked under abominable natural conditions with the Yanan spirit of self-reliance and arduous struggle to change the ecological environment in an effort to develop industrial and agricultural production. With reform, greater efforts have been made to bring river basins under control and to tame the desert, very great achievements made in the work of planting trees and growing grass, and in taming the desert to create fields. On this visit, I saw how the river basin was brought under control at Wangchagou Village and at Taihuangshan Village in Ganquan, and the very large scale on which farmland capital construction has been carried out. Returns from the filling in of the river to create fields in Hengshan County have been remarkable. Furthermore, the spirit of dredging at Shigua and Jingbian in Jiaxian County, and taming the desert to create fields in Yulin is even more praiseworthy. The Shanxi-Shaanxi Huang He Gorge region along the Huang He in Jiaxian County was listed by the State Council Office for the Support of Impoverished Areas [Fupin Ban - 2105 6302 5486] as one of the most impoverished areas in the country where it would be exceedingly difficult to bring all the elements under control. After many years of efforts and practice, and simply by using the spirit of the foolish old man who moved mountains, the masses here created fields where piles of boulders had lain helter-skelter. Some of them simply set up housekeeping on the boulders to lead everyone in doing the work. One peasant family in Heyeping Village worked more than two years to create 15 mu of fields in which it planted date trees intercropped with watermelons, thereby earning more than 1,000 yuan in cash income in 1990. The county CPC committee fastened on this classic case to do unified planning, winning initial success throughout the county in waging a "people's war" against the rocks. They scored success in preliminarily clearing away the helter-skelter boulders against which all previous efforts had failed even during learn-from-Dazhai period. Quite a few people who come to this place call them "the ones who found a way to exist, a way to become wealthy, and a way of hope for the masses along the shores of the Huang He." Despite the harsh conditions in the northern region, the Yanan spirit of arduous struggle of the broad masses of cadres and people expressed in "the people may live in poverty but there is no poverty of will, and hold fast to the objective and never let go" is extremely moving. This is valuable spiritual wealth; it is the source of great strength for the people of the old liberated region in ridding themselves of poverty to become rich.

Hardships in developing the northern region are also substantial.

Objectively speaking, the foundation for agriculture is brittle; funds for development are in short supply; and neither transportation or communications are readily available. These are all major problems limiting the province's economic development that are even more conspicuous and more serious here. The backwardness of communications and transportation, in particular, have become the greatest limitation on development. Subjectively speaking, old ideas and the lack of skilled talent is a crucial point in many problems. We realize that there are a large number of competent men of action in the cadre corps here who are able to bear hardship and who are unstinting in their willingness to work and sweat. However, the lack of transportation and the geographical isolation have resulted in their lacking sufficiently broad horizons. Their thinking is not sufficiently emancipated. In running the economy, they still lack a commodity concept, and they lack the boldness needed to develop markets. In many things they do, they are unable to break free of restraints and invigorate; they are unable to meet needs in hastening the pace of economic development.

The basic advantages and the main difficulties, as well as the problems that exist in the northern region show the dual significance of accelerating the pace of development: First is the exploitation of the abundant premium quality coal, petroleum, natural gas, and bauxite, which can bring about a complete change in emphasis of processing industries in the province's industrial structure, and the province's weakness in a relative paucity of basic industries for a more rational internal structure of the energy industry. This can additionally spark the development of a heavy chemical industry, adding reserve strength to Shaanxi's economy. Second, development is bound to spur local economic development. Poverty in any area stems essentially from a lag in economic development and a lack of interrelationship and exchange with the outside world. In modern society, this shows up in an undeveloped commodity economy. Consequently, poverty in the northern region may be capsulized in a single sentence: Insufficient development. Now important and appreciable reserves of resources have been discovered and, in addition, there is a basis for development as well as the opportunities that reform and opening to the outside world provide. Accelerated development is bound to bring about a large scale inflow of capital, technology, skilled personnel, and commodities that infuses new vitality into the development of this impoverished region and permits the old liberated areas of northern Shaanxi to forsake poverty and become wealthy, bringing in its wake an extremely important influence on the coordinated economic development of all regions in the province.

The overall line of thought for the next step in development of the northern region must be: Further improvement of the foundation, which is agriculture, major emphasis on the crucial area of communications and transportation, focus on the key point of developing energy sources, further emancipation of thinking, a greater understanding of the meaning of reform and

opening to the outside world, reliance on scientific and technical progress, hastening of the pace of development, not holding back or being dependent, application of the Yanan spirit of arduous struggle, and moving ahead with the building of the economy in the waging of a war to stand on our own two feet during the next five or 10 years or even longer paving the way for even greater development. We must unswervingly make "science and technology is the first productivity" the basic guiding policy for moving ahead with development of the economy, putting in place various major measures whereby "science and technology build Shaanxi." In agriculture, we must take firm hold of the goal of bringing river basins under control and tackling the problem of desert areas, firmly implant the idea of large scale agriculture, stress basic agricultural fields, and emphasize economic diversification for the building of production basis for grain and diversified commodities. While doing all possible to get state support for the building of highways and railroads, the province, prefectures, and counties must further tap potential, use every available means to overcome the problem of a shortage of funds, stir the masses to the full to wage a people's war, rely on hard work instead of payments, put into practice a policy of professional work brigades and civilian laborer corps work in unison to accelerate construction, positively not allowing any further impediments to communications and transportation. Only by building roads can the abundant resources be truly developed for use on a large scale; only then can the province's advantage in energy be used to the full; and only then can the acceleration of the development pace be translated into reality.

Much remains to be done to accelerate the pace of exploitation and development. I feel work must be done in the following main regards:

1. The need for further emancipation of thinking and updating of ideas.

The key and the point of departure for the emancipation of thinking is the emancipation of productivity to advance economic development. Restraints on the formulation of plans, and the proposing of actions to implement policies must be further loosened. Whatever helps the development of social productivity or helps development of a socialist commodity economy should be done with a free hand. In poverty stricken counties such as Wubao and Jiaxian, being able to imagine one using the railroads and the highways within Shanxi Province to bring out products, and being able to imagine the building of a large bridge across the Huang He to open the road to development, and that very much effort has been made in the last two years to realize them has not been very simple. During my survey in the south, I frequently had the feeling that what others are already doing, some of our comrades often dare not even think about. So how can they catch up with the pace of development nationwide? In the harnessing of river basins and controlling desert areas, in renovating fields and making new land, Yanan and Yulin prefectures

operate more freely, act more boldly, and move more quickly. They can give the people more rights and material benefits, make fullest use of the power of policies to arouse the masses' enthusiasm for developing social productivity and developing a commodity economy. A peasant household in Dongkeng Township in Jingbian County added more than 40 mu of farmland from a barren sandy tract, put in a pump well, provided means of irrigating the land, and tilled the land painstakingly. In 1990, it produced 11,000 kilograms of grain earning more than 7,000 yuan. Now it is going in big for cash crops, and in another two years its apple trees will bear fruit. Then its income will be more than 10,000 yuan. The garden economy is going great guns in this township, and I believe that every jurisdiction in the northern region might vigorously encourage the masses to do the same. They should organize and stimulate collective, partnership household, and individual forces; then the development pace in harnessing river basins and controlling desert areas will accelerate greatly.

The key to the emancipation of thinking is "liveliness." One must proceed from the idea of large scale development of a socialist commodity economy, further enlivening policies, enlivening management, enlivening markets, enlivening prices, and enlivening the ownership system. The inadequate development of impoverished areas actually stems from lagging development of a commodity economy. Inculcation of commodity production and administration and market concepts is the most important component in updating ideas. Genuine enlivening of the commodity economy requires a pioneering spirit. The central government has already enunciated major plans and policies; their actual implementation requires that the people themselves use their brains to figure out ways of pioneering them. In running a commodity economy, not only is it necessary to work hard on production; more importantly, one has to work hard on business. Once a leading industry has developed and products have increased, selling them becomes a big problem. One has to use flexible measures to sell them. One place had nearly 1 million yuan worth of agricultural by-products on hand when a person from elsewhere said he would contract their sale, but he wanted a fee for his trouble. Afraid to take a risk, we could not come to an agreement, and ultimately refused the person who offered to make the arrangements. Afraid to take a risk? Was not the nearly 1 million in by-products on hand a risk? After arguing back and forth, it was the state collectively that lost, and no one could be taken to task for it, yet they were afraid to bear responsibility for reaching agreement on this piece of business. How can such a frame of mind invigorate business dealings and develop commodity production. The No 2 Wool Spinning Plant in Yulin did the right thing. Faced with a market slump and the accumulation of goods in its warehouses, it proposed various measures, such as a greater effort on sales, and cutting its inventory to accelerate the turnover of funds. It contracted sales, paid close attention to product development, and simultaneously improved internal quality controls, which

brought about a new turn for the better in the enterprise. During a two-year period, it developed more than thirty designs, colors, and varieties, most of which customers welcomed. Current sales contracts guarantee no losses this year, and the possibility of 2 million yuan in added sales of inventory from previous years. Their principal experience was the enlivening of management to spur production. Flexibility in the ownership system is something that impoverished areas particularly need. Highway and railroad construction, the development of energy resources, and going into heavy chemical industries require large amounts of capital. State and province investment is limited, and concentrated largely in major key projects. Investment in other things such as the development of agriculture, running local industries, and operating township and town enterprises, including the development of tertiary industries, must be done by oneself. Unless there is flexibility in the ownership system, production potential cannot be freed and there can be no major opportunities for getting out of poverty. Shaanxi Province has many large- and medium-sized state-owned enterprises, a very large percentage of which are part of the economy under ownership of the whole people. Even though the collective, individual, and private ownership component is a fairly large percentage in impoverished areas, in the overall structure of the province as a whole, it is still ownership by the whole people that holds absolute dominance. What is more, the developing collective economy also retains the character of public ownership, so do we have reason to be apprehensive? On this issue, we are dogged by fears, and we may lose a development opportunity. Yanan has a ceramics factory that produces purple sand pots of a quality no less than that of Yixing [1355 5281] products. Hengshan operates a cold-resistant clothing factory whose products sell rather well. Nevertheless, neither of these enterprises currently produces on a large scale, and they are unable to satisfy market demand. Why do they not think of ways to expand the scale of production quickly? Expanding production requires investment of capital, but they can raise money through many channels and in many ways. They might use the share system to form partnerships, or they might think of ideas requiring little or no expenditure of money. In both the forms of financing and production methods, they can demolish the ownership system conventions. Other provinces have used such methods to a very great extent, and precedents exist in Shaanxi Province too. We must have broader ways of thinking about matters and act more flexibly. Certainly we must proceed from the principle of returns in expanding the scale of production, get market information and pay attention to sales externally, pay attention to management and focus on quality and the development of new products internally to operate enterprises more vigorously.

The key to the emancipation of thinking is solving the human talent problem. Modern economic competition is essentially competition in science and technology, and the human talent problem is the focal point of all competition. Therefore, development of the northern

region is, first and foremost, the development of science and technology, and the development of human talent. Impoverished areas have to dare to import human talent, to put human talent to work, to emancipate thinking, to update ideas and develop the economy. All are practical problems. If one lacks the courage to pioneer while having managerial talent and scientific and technical talent means inability to do anything concrete, or do it only very slowly. In bringing in and selecting human talent, a single pattern will not do. A macroenvironment has to be created that enables human talent to show itself. Without such a macroenvironment, it will be difficult to bring in outside talent, and local talent will not mature. The Yulin No 2 Wool Spinning Mill hired several master workers from Wenzhou to design clothing and processing, thereby opening an avenue for the deep processing of woolen textile products that produced rather good returns. The imported talent played a role. Some able people are unwilling to go to places that are poor and conditions bad. Getting them will mean spending more money. Work has to be done to create a fairly good working and living environment for them. One cannot be reluctant to pay compensation of 400 or 500, or even 500 or 600 yuan per month, much less can one be envious. But for the payment of these several hundred yuan, there would be on returns of tens of thousands, hundreds of thousands, or even a million yuan. This money must be considered well spent. While boldly importing human talent from elsewhere, one must also boldly employ local talent. Outstanding talent is a rarity in impoverished areas. One must be adept at discovering and daring to use those outstanding people who possess relatively high ability to think, a good head for business, understand technology and know how to manage, and who can get results. In recent years, the one city and two prefectures in the northern part of the province broke the rules in putting to use and promoting some peasants who produced some achievements in rural villages. Such a method is very good. This is also the way things should be done in business. Wherever an enterprise is being run pretty well and the plant manager or director is very smart, has a lot of drive, and has a pioneering spirit like the manager of the Construction Partnership Company in Yanan Prefecture, during a time like the present when there is no big slump for construction enterprises, the intensification of reform should be used to cause staff members and workers to invigorate their companies for a year-by-year ratcheting up of enterprises' returns. Such people must be supported and encouraged, and others should be called to emulate them so that more talented persons reach maturity. In connection with the human talent issue, an updating of ideas is particularly important. To give attention to human talent is to give attention to the fundamentals of economic development. Only when this point is reached can economic development accelerate, potential and hopes being turned into reality.

2. Accelerating the pace of basic facilities and basic industries construction to set the stage for large scale exploitation of resources.

The first thing to be done in converting into real advantages as early as possible the potential advantages that the northern region offers to create wealth for the people and invigorate the building of the province's economy is acceleration of the pace of construction of basic facilities such as communications and transportation, and of basic industries. In particular, the building of railroads has to be speeded up. This is a prerequisite and a foundation for the acceleration of development. It is the "golden key" to ending regional isolation, and it is a huge lever for prying open the door to escape from poverty to become wealthy and for vigorous building of the economy. With the opening of transportation, the opening of one route will lead to the opening of many. This is not only a profound experience of generation after generation of people in areas in which transportation is undeveloped, but has been testified through practice in developing the economies of all countries in the world. Without transportation, there is no circulation of commodities, and with no circulation of commodities, conditions do not exist for the exploitation of plentiful resources above and beneath the ground. When priceless treasures cannot be brought to hand, breaking free from poverty is very difficult. The development of communications holds extremely important significance for the economic development and exploitation of resources on the province's southern and northern flanks. This is likewise the case on the central plain in Shaanxi, which began development early and whose economy is fairly well developed. By way of changing the lack of coordination of basic facilities and basic industries, such as transportation and communications, with the economic and social development of the whole province, during the Seventh Five-Year Plan we overcame countless difficulties with a serious shortage of funds, resolving to build a number of transportation, energy, and raw and processed materials projects. These included the western Yanan railroad, the Xian-Tongchuan primary highway, the Xilin high speed highway, Jianyang International Airport, Wei He Power Plant, Wei He Chemical Fertilizer Plant, etc., all of which have or shortly will play major roles in the vigorous development of Shaanxi's economy. During the Eighth Five-Year Plan we continued such projects, including beginning the building of spur of the Xian-Baotou Railroad to Shenmu. The construction of this railroad will more closely link the two large economic zones of the province's central plain and the northern part of the province, thereby helping the exchange of advantages that each enjoys, mutual advance, and joint development. This holds extremely important significance for a change in the poverty of northern Shaanxi and acceleration of the development of resources. As the people who live in northern Shaanxi say, this railroad is "a lifeline, a line to riches, and a line to prosperity." At the same time, its completion and opening to traffic will also lay a good foundation for an early link up with the Xian-Ankang line, the significance of which is even greater for the complete development of the province's economy and the building of a nationwide network. Yanan and Yulin prefectures also have to overcome all

difficulties and bend every effort to support the construction of this railroad. They must propagandize, mobilize, and organize the broad masses to carry forward the revolutionary spirit of arduous struggle and courage in making a contribution of the old liberated area, support and taking part in the building of the railroad in the same way that they supported the front line during the war years to assure its early completion and opening to traffic.

The second thing to be done is focus on the building of transportation and the opening of coal fields and gas fields, beginning as early as possible to concentrate on building and developing basic facilities and basic industries in order to spark complete development of the local economy. Once transportation conditions have been improved, industrial projects that could not be developed under former conditions may be developed. Products that it has been impossible to process or produce heretofore, and agricultural by-products, as well as both native and special products that did not dare be produced on a large scale heretofore can then be produced freely on a large scale. In addition, the large scale development of the coal and gas fields will provide new development opportunities for local and neighboring area industrial and agricultural production and for tertiary industries. For example, the exploitation of these fields is bound to stimulate the development of attendant industrial enterprises. The influx of development funds on a large scale and financing are bound to require the rapid development of finance and banking. The arrival of a large development and construction corps will require large amounts of grain, edible oil, meat, and eggs for consumption, and this is certain to require a rapid expansion of grain and economically diversified bases, which will require the provision in various forms and at various levels of business, food and beverage, cultural, and entertainment services. The rapid development of a commodity economy and the increasingly lively circulation of commodities will inevitably require accurate and fast relay of information thereby necessitating the development of posts and telecommunications facilities. The sudden building of production and living facilities on a large scale is bound to require rapid development of the construction, building materials, and housing and real estate industries, as well as complementary communications and transportation industries. In short, the one city and two prefectures of the northern region, particularly Yanan and Yulin prefectures, must begin right now to concentrate, in terms of local realities and from the angle of long-term development, on the building of transportation and the opening of coal and gas fields. They must quickly respond to thinking about the readjustment of economic development, begin revising development plans, make new deployments of resources, and do a good and lively job on this overall development task that will stimulate the local economy.

The third thing to be done is to focus on the building of transportation and the opening of coal and gas fields, and to do a good job of building newly developing

industrial and commercial cities and towns. The backwardness of northern Shaanxi's economy stems largely from its being a long way from large cities and the extremely weak influence received from an urban economy. With the extension of railroads and the development of resources during the next several years, capital and human talent, as well as modern industrial civilization will radiate to the places where construction is done and projects located. Things that formerly could not even be imagined will also gradually become realities, and qualitative changes in the economy and society will occur by leaps and bounds. Foreseeably, with improvement in transportation, the first rate highway connecting Xian with Tongchuan, full through traffic over the Xian-Baotou Railroad, and development of the coal and gas fields, the area northward from Xian will rise. No longer will the only cities there be Tongchuan, Yanan, and Yulin, but a number of newly developing industrial and commercial cities will also gradually emerge to become main forces spurring development of the northern region's economy. The building of a municipal government and new area planning being carried out in Tongchuan is changing the face of the city, and defining a new development vista for that city. Yanan and Yulin will also shine with a new vitality and exhibit new vigor. The Huangling-Tongshu low grade coal chemical industry industrial zone will develop further. The Shenmu-Daliuta industrial development zone already exists in an embryonic form. The rise of the Jingbian gasification industrial zone is also not far off. Suide, which traditionally has been a major town in northern Shaanxi, will also take wings to gain new life. In time, the northern part of the country will be like the central plain. A number of cities extending like a string of pearls will gradually appear before our eyes. Although difficulties are still very large today, the future is bright and hopes are great. Therefore, starting right now, the three places in northern Shaanxi, particularly Yulin and Yanan prefectures, must define goals, draw up plans for the building of new cities and towns, improve administration, create fine production and living conditions for economic development, laying a fine foundation for long-range development. The development of new cities and towns requires new ways of thinking; it requires reliance on the masses to build cities and to make cities prosper. Once a good foundation has been prepared through city planning, policies have to be liberalized to encourage capable people from rural villages who have expertise and good commodity concepts to go to work and run business in the cities and towns, and to build enterprises and operate tertiary industries.

The fourth thing is the need to adhere to the principle of "equal emphasis on development and protection, and equal emphasis on development and cleaning up." One characteristic that the three places in the northern part of the province share is that in the exploitation of resources as a means of stimulating economic development, both protection of resources and cleaning up of the environment are strenuous tasks. Formerly we lacked sufficient experience in these regards in the exploitation of

resources in Tongchuan, and we came to grief as a result. We must bear this lesson in mind. In the exploitation of the new coal and gas fields, we must adhere from beginning to end to the principle of "equal emphasis on exploitation and protection, and equal emphasis on exploitation and cleaning up" to produce a benevolent cycle in which exploitation goes hand in hand with protection and cleaning up so that exploitation advances development and prosperity. Otherwise, we will bequeath boundless calamity to posterity.

3. Need to address major contradictions and key points, persevere to the end, and strive for substantial results.

In economic work, thousands of strands and loose ends exist, yet there are main focuses. Matters both large and small must be addressed. It is necessary to learn how to address the main contradictions from among numerous contradictions. Addressing the main contradictions and key points requires thorough familiarity with the local situation in prefectures, cities, and counties in order to be able to make use of their advantages and characteristics, taking a road of economic development that fits in with their own realities. One reason for the long-term backwardness in the economic development of impoverished regions is the deteriorated natural environment and poor conditions for survival; however, one important problem in this is the failure over a long period of time to find ways of thinking about economic development that are in keeping with local reality and the state of development of productivity there. Under guidance of correct central government policies, and as a result of difficult trial and error on the part of local cadres and the masses since reform and opening to the outside world, plus the borrowing of knowledge from elsewhere and the hiring of experts to do research, ways of thinking about economic development that are in keeping with locales' only characteristics have gradually been established. After several years of trials and practice, the prefectures and cities, and some of the counties I visited on this occasion have virtually all taken, or are in process of taking, their own roads, a certain amount of development occurring in economic construction and various endeavors. An example is the way of thinking about work proposed in Tongchuan of "the oneness of cities and the countryside, linking of cities and mining areas, and synchronous development of the economy, society, and the environment. The rural villages of Yanan Prefecture have taken a road of economic development in agriculture of "more main products, namely "tobacco, fruits, sheep, and tubers"; and in industry of four dominant industries, namely coal, petroleum, cigarettes, and wool spinning. The economic development strategy that Yulin Prefecture has formulated of "strengthening the foundation, greater removal of restraints, highlighting energy, and all-around development" is very distinctive. In addition, some counties, such as Wubao, which is a notoriously poor county in Yulin Prefecture, has a weak industrial foundation. Nevertheless, during the process of rural economic development in recent years, it has gradually shaped a way of thinking of "laying the foundation for three groves (date groves, fruit groves, and

mulberry groves) in a single field, using land and economic diversification to become comparatively well-off. During the Seventh Five-Year Plan, the entire county saw rapid economic development, county revenues increasing from somewhat more than 270,000 yuan in 1985 to more than 2.65 million yuan in 1990 in a 9.8 fold increase. In addition, during the survey, I also felt that each of the counties also had a common failing, namely that ideas about the development of agriculture were generally pretty well presented, but that ideas about the development of industry were somewhat murky. For example, on matters such as the possible effects on development of a county's economy of the building of transportation and the exploitation of coal and gas fields, and what they should do about them, quite a few counties had yet to react clearly. Therefore, each county must begin to think about problems in terms of the big picture of accelerating exploitation and the overall environment, focusing on the long-term, focusing on overall coordinated economic development, and selecting in a planned way a number of cadres who have industrial management experiences, have an understanding of the commodity economy, understand technology, and dare to pioneer, putting them in county level leadership teams, thereby improving leadership of industry and of urban economic development as a means of meeting the new demands that economic development poses for cadre quality.

Once the main ideas for economic development have been set, they must be adhered to, maintained to the end, and results achieved. Ideas for economic development do not come easily, and continued adherence to them is even less easy. It requires a solid spirit of hard work. One cannot start doing something else at will just because of a change in team or of the teams leaders. Unless there is continuity in the work, the rank and file of cadres and the public may not know what course to follow. Once goals are set, they have to be pursued to the end in order for the masses to truly extricate themselves from poverty, for a turn around in government subsidies, and for coordinated economic and social development. Policies and particulars on important issues having to do with the overall situation must be arrived at through investigation and validation, actions taken in a prudent way instead of fighting a battle one is not sure of winning. A vendor's stall should not display too much; one should accomplish one thing at a time to give the masses' morale a boost and see some hope. If one says that ideas for development are a strategic issue, their implementation has to rely on many separate tactics for their fulfillment. After all, funds for the development of impoverished regions are extremely scarce and getting approval for projects is not easy. One has to do all possible to avoid policy mistakes, making sure that project choices are appropriate. This is the only way to avoid dampening mass enthusiasm so that when the government speaks there will be a response. Then economic development can also readily bring about a rallying of forces from top

to bottom. This problem should attract the full attention of leaders at all levels, particularly leaders at all levels in impoverished areas.

4. The leading position of the party in economic work must be clarified. The whole party should take charge of the economy, and each major team should devote itself to joint control to move ahead in a concerted way with the building of the economy.

In his speech at an assembly commemorating the 70th anniversary of the founding of the party, Comrade Jiang Zemin said explicitly that "the fundamental task of socialism is the development of social production. At the preliminary stage, we should all the more unswervingly place this task in a central position." On this issue, CPC committees and comrades in all major teams must have a clearheaded and unified understanding. Making the building of the economy the centerpiece is so that the people can march toward a new life of wealth and prosperity. This stems from our party's purpose of serving the people heart and soul. Only by making the economy better can the people's standard of living steadily improve and rise, and the superior of socialism be expressed to the full. Historical development has told us repeatedly that the backward are bullied and beaten, and that their party and nation may even perish. The changes that have taken place in the international political and economic situations in recent years require that we further increase our sense of urgency, sense of responsibility, and sense of mission about improving the development of social productivity and moving the economy along. Only by having the greatest resolve to move ahead in building the economy can be consolidate the socialist system, and oppose and stand up to "peaceful evolution" laying down a stronger material foundation. Thus, we must firmly inculcate an ideology of the whole party taking charge of the economy with each major team exercising joint control. Some economically developed coastal provinces have solved this matter rather well. We might very well learn and borrow from them. The key lies in find a proper solution to the problem of each large team directly taking part in economic construction on the unified leadership of a CPC committee to carry out its role to the full. The economy is certainly not a matter to be left only to CPC committees and governments; individual large teams must also concentrate their energies on this, forming individual strands into a rope and unstintingly devoting themselves to this central theme of economic construction. Every large team bears an unshirkable responsibility for failure of the economy to move ahead. Each year since the last half of 1989, Yaoxian County has held joint county level meetings of its six large teams. Acting under unified CPC committee direction, it has instituted a division of labor responsibility system for the heads of the large teams in the CPC committee, government, People's Congress, CPPCC, discipline inspection committee, and people's armed police for key economic construction projects. It has set tasks and goals, and it has designated specific individuals responsibility for on-time completion of work. This has been going on for three consecutive years and has

showed results. Economic construction throughout the county shows very great vitality. Were all large teams at various levels throughout our province able to do as Yaoxian does, genuinely inculcating an ideology of taking the building of the economy as the centerpiece and truly shifting their work emphasis, large teams thereby going from being outsiders to insiders and from greenhorns to experts, working as one, and being devoted to joint control, a new situation would be bound to occur in the building of the economy in every jurisdiction, greatly accelerating the pace of the province's vigorous economic development.

Any bolstering of the party's leadership of economic work must focus on this centerpiece of building the economy if a good job of building the party is to be done. Marx said that once the proletariat rises to the ruling class, "its important and most fundamental interest is the vigorous increase in social productivity." Only when productivity is greatly increased and the economy greatly developed can the goal of building a rich and powerful, democratic, and cultured socialist modern country become a reality. Otherwise, everything is out of the question. Therefore, work on party building cannot be divorced from the party's central task. It must be linked to work on central concrete practice, studying and solving the new problems that the party faces in construction so that the party becomes a firm nucleus for leading socialist modernization. The key to party building is team building, and the key to team building is the selection of people who can lead. Prefecture and municipal CPC committees have to exercise firm control over CPC committee teams and over county CPC committee secretaries. County CPC committees should pay particular attention to the building of rural party organizations, taking firm control over the building of grassroots organizations. Only in this way can they ensure that development of the economy does not deviate from the path of socialism; only in this way can they bolster the role of party members and a vanguard model and their role as a stronghold of the party's grassroots organization; and only then can they promote the building of production and the vigorous development of all rural endeavors. This issue must also be used as a nucleus for rural socialist ideological education, and diligently adhered to. Work in the building of the rural grassroots party throughout the province has been effective in recent years, numerous advanced models in the building of the grassroots party coming to the fore. The progressive deeds of this fine branch headquarters and these fine leaders in leading the masses in the wholehearted building of the economy should be widely publicized and vigorously promoted. It is necessary to be adept at finding and making use of classic examples, using their model leadership role to the full in making party building better and more solid. If we focus on the centerpiece of building the economy when building the party, tenaciously holding fast to development objectives, we will be able to unify and lead the masses in a continuous advance along the road of building a distinctively Chinese brand of socialism. In addition, a brand new

situation will appear in both development of the economy of the province's northern region, and in development of the economy and society of the whole province.

Liaoning Vice Governor's Economic Report

*SK2709142891 Shenyang LIAONING RIBAO
in Chinese 4 Aug 91 p 2*

[Report given by Wen Shizhen, vice governor of Liaoning Province, on implementation of the provincial economic plan in the first half of 1991 and on arrangements for the economic work in the second half of 1991, at the 23d Standing Committee Meeting of the Seventh Provincial People's Congress on 24 July]

[Text] Entrusted by the provincial people's government, I will deliver a report on implementation of the provincial economic plan in the first half of this year and on arrangements for economic work in the second half of this year.

1. Basic Situation in Implementation of the Provincial Economic Plan in the First Half of This Year

Since the beginning of this year, our province has conscientiously implemented the guidelines of the Seventh Plenary Session of the 13th CPC Central Committee. It has conscientiously executed the 1991 plan for economic and social development in line with the provincial party committee's strategic principle known as "grasping one field to bring along three fields" and in line with the goals defined by the fourth session of the seventh provincial People's Congress [NPC]. Since the beginning of last year, our province's economic situation has been relatively grim. However, thanks to the joint efforts of the whole province, particularly along with the gradual implementation of the various state policies on macro-economic regulation and control, the grim economic situation has been relieved somewhat since May and June, and the general situation in implementing the provincial economic plan has been good.

Based on the bumper harvest last year, agriculture has continued to maintain a favorable trend. This year the amount of land for crops was 54.3 million mu. Of that, 46.27 million mu was used for grain and 800,000 mu was used for cotton, overfulfilling the plan by 200,000 mu. The seedlings are doing well, supplies for agricultural production are ample, and the agricultural science and technology contract responsibility system is being implemented relatively well. Despite the financial shortages everywhere in the province, this year the province has still raised 98.58 million yuan to support agricultural production, thus laying a good foundation for reaping a bumper agricultural harvest this year.

Industrial production has shown an upward trend, growing at an obviously faster pace since May and June. In the first half of this year, the total output value of the industry at or above the county level was 72.79 billion yuan, an increase of 6.7 percent over the same period last year, or 50.2 percent of the fiscal year plan. Of this

figure, total output value of light industry was 21.172 billion yuan, an increase of 6.3 percent; and that of heavy industry, 51.625 billion yuan, an increase of 6.8 percent. The grim situation in industrial production has tended to show relief. Major indicators are: First, local industry has increased by a relatively large margin, showing an increase of 8 percent over the corresponding period last year. Second, of the newly added industrial output value, the output value of collectively run industry and industries of other categories has accounted for 52.8 percent, thus becoming major factors for promoting the upturn of industrial production. Third, along with the nationwide increase in the demand on investment, the basic raw materials industry, such as the machinery, building materials, and processing industries, have been restored and increased rapidly. Fourth, marketing of products has improved somewhat. According to the statistics compiled in the first five months of this year, the production and marketing rate of the products of the industrial enterprises at or above the county, district, or battalion level reached 94.6 percent, higher than that in the corresponding periods of 1989 and 1990. Fifth, the export-oriented economy has developed relatively rapidly. In the first half of this year, the industrial export output value was 7.38 billion yuan, an increase of 24 percent over the same period last year. Sixth, the mental state of the vast number of cadres and workers has been good.

Investment in fixed assets has also shown a big upturn, and the investment structure has been readjusted to some extent. In the first half of this year, the fixed assets investment made by the state-owned units throughout the province was 6.684 billion yuan, an increase of 18.9 percent over the corresponding period last year. Of this figure, the investment in re-equipment and transformation projects was 1.736 billion yuan, an increase of 21.1 percent; and that in capital construction was 3.686 billion yuan, an increase of 13.3 percent. Investment in technological transformation increased much faster than that in capital construction.

Urban and rural markets have been brisk, and marketing has gone up. In the first half of this year, the total volume of retail sales was 24.78 billion yuan, an increase of 10.2 percent over the same period last year, or 48.5 percent of the fiscal year plan. The index of retail sales prices rose by only 1.9 percent over the same period last year. Prices of meat, eggs, poultry, and fresh vegetables steadily declined.

Foreign economic and trade increased steadily. Under the new foreign trade system, all localities further perfected the contracted responsibility system among foreign trade enterprises, promoted cooperation between industry and trade and between agriculture and trade, and positively expanded the export scale. In the first half of this year, the local foreign trade volume reached \$1.602 billion, showing an increase of 23.4 percent over the same period last year and fulfilling the annual plan by 64.8 percent. The province signed 231 contracts for the use of foreign capital, an increase of 25 percent over

the same period last year. The contracts on using foreign capital signed in the first half of this year involved \$306 million, an increase of 12.5 percent over the same period last year.

The local revenues reached 5.668 billion yuan, fulfilling the annual plan by 42.6 percent and showing an increase of 5 percent over the corresponding period last year. Of this, the revenues from the province and 12 cities reached 3.21 billion yuan, fulfilling the annual plan by 43.9 percent. Expenditures reached 3.96 billion yuan, accounting for 29.1 percent of the annual budget and showing a reduction of 3.3 percent from the same period last year.

Although the province made better achievements in the national economy through the arduous efforts of various fronts, the industrial, economic, and financial situation is still extremely grim. The current major problems are:

A. Industrial production rose slowly. Although the province's industrial production increased by a big margin in the first half of this year, the production of large- and medium-sized key enterprises, which hold a decisive position in the province's economic development, rose slightly. Their production increased only by 3.2 percent in the first half of this year, lower than the provincial average industrial growth rate. Moreover, the current growth rate is traded with input of credits and the increase in the amounts of finished products kept in stock. If the increased portion gained by the finished products kept in stock are excluded, the increase rate was only equal to the rate in the corresponding period of 1989.

B. The situation where the economic results were reduced has not changed yet. As of the end of June, the profits and taxes realized by the local budgetary industrial enterprises reached 2.64 billion yuan, an increase of only 1.2 percent over the same period of last year when the profits and taxes were reduced by a big margin. A total of 1,007 budgetary industrial enterprises suffered losses, an increase of 77 over the same period of last year. About 56.2 percent of the enterprises suffered losses, and the deficits reached 810 million yuan.

C. Enterprises had no reserve strength for development. The development of enterprises depends on the ceaseless improvement of enterprise operation. At present, enterprises' operational situation has steadily deteriorated. This seriously affects the development of enterprises. First, large amounts of finished products are kept in stock. This leads to a great decrease in enterprises' reserve funds. Second, the declines in economic results lead to a decrease in the profits obtained by enterprises. Statistics showed that in the first half of this year the profits obtained by the county and district enterprises reached only 500 million yuan. The input by enterprises was suspended for a period. Third, the product mix was readjusted at a slow speed. Thus, products lack competitiveness. So far, more than half of the industrial products are at the national general levels or below. Fourth,

there are great possibilities for losses. About 70 percent of the local budgetary enterprises can possibly suffer losses.

D. The strained financial situation has not been alleviated. In the first half of this year, the local revenues were under the planned target by 980 million yuan. Due to the fairly large deficits, there is strain on capital, and there are great difficulties in distribution of capital. The province is unable to allocate some special expenses or to give price subsidies, but can only ensure the basic demands for personnel expenses.

There are both objective and subjective reasons for the grim economic situation. Particularly, the state of industrial production and finances have been grim for a long time. We must recognize that there are some objective reasons, such as the unitary provincial economic structure and the large proportion of mandatory planning. Also, a large portion of revenues should be handed over to the higher levels, and there is strain on capital. However, there are some experiences and lessons that we should subjectively ponder again and again.

By deepening the understanding of the province's situation in the preceding period, we have felt profoundly that our idea of reform and opening-up and our sense of commodity economy have not been strong enough, our minds have not been fully emancipated, our ideas and concepts still lag behind the demand of the socialist planned commodity economy, and we are still not good at dialectically and dynamically approaching the ever-changing provincial situation and at readjusting the priorities and direction of the province's economic development. Liaoning's economic structure is far from meeting the demand of the planned commodity economy and thus directly hampers the exploitation of the provincial-level macroeconomic regulatory and control capacity. We still lack a realistic workstyle, frequently making more arrangements but fewer examinations. The morale of some cadres has not been fully raised, and we have failed to adopt timely measures to counter the under-staffing of leading bodies of some enterprises. We must conscientiously summarize experiences and lessons to address these problems and make great efforts to improve our work in order to do the province's economic work even better.

2. Major Tasks for the Economic Work in the Second Half of This Year

In light of the major problems in the province's economic work, the general ideas for the economic work in the second half of this year are: Conscientiously studying Comrade Jiang Zemin's speech at the rally marking the 70th anniversary of the founding of the CPC; implementing the guidances given by Comrade Zhu Rongji with regard to Liaoning's work and the guidelines of the summary of the office meeting with the participation of premier and vice premiers of the State Council; mobilizing all cadres and the masses in the province to further

unify ideas and enhance morale; accelerating the clearing-up of the "cross defaults" in the course of continuously grasping agricultural production, vigorously developing the urban and rural collective economy, accelerating technological transformation, and opening still wider to the outside world; making good use of the special subsidiary funds; seizing the current favorable opportunity to deepen enterprise reform and strengthen operation and management, with focus on improving economic efficiency; concentrating our efforts on boosting industrial production; making great efforts to improve finances; reversing the passive situation in the province's economic work as quickly as possible; and striving to fulfill the economic and social development plan relatively well.

A. We Should Strengthen Enterprise Management, and Resolutely Boost Industrial Production.

We should firmly grasp enterprise management. Some enterprises are unable to boost production and improve economic efficiency not only because of external conditions but also largely because of the low management level. Therefore, in the second half of this year we should be determined to help enterprises manage themselves strictly in order to ask for better quality and efficiency from management. We should regard this work as the transition for reversing the downward trend of economic efficiency. In the second half of this year, the priorities for enterprise management are:

First, we should grasp the basic work, and strengthen management within enterprises. The province as a whole should continue to rigorously enforce disciplines regarding labor, crafts, and operation; should rigorously enforce regulations and systems as well as the system of personal responsibility; and should straighten out the activities of professional management and the on-the-spot management. Second, we should grasp the key links and pay attention to improving the quality of products. The province as a whole should emphatically grasp a number of products that are related to the national economy and the people's livelihood and that are export-oriented and able to earn foreign exchange. The province should strive to improve the quality and function of products in line with the international standards in order to make the output value of fine-quality products account for one-third of the total. All industrial enterprises should strengthen control over quality and over the sequence of work and should implement the method of negating all achievements in case of failure in improving quality. Third, we should tap potentials and curb material and energy consumption. All localities, departments, and enterprises are required to strengthen quota management, to adopt award measures for those who curb consumption and save energy, and to exercise control over the whole process of input, output, and material consumption of enterprises. Fourth, we should halt deficits and help enterprises extricate themselves from difficult situations. We should firmly grasp the implementation of the work responsibility system, and should emphasize helping the 30 major enterprises that

caused more than 10 million yuan in losses each last year to halt deficits and increase profits.

We should firmly grasp the clearing-up of "cross defaults." We will organize all localities and departments to achieve success in this work with a serious attitude and a positive work style.

We should first clear up the debts amassed mainly by the key enterprises in machine-building, metallurgy, coal industry, and building materials and then deal with the mutual debts of enterprises within cities and the province. To prevent the steady spreading of "debt chain," we should look vigorously for the root of debts and block their sources, ensure that investments in projects do not surpass their budget, enhance the appropriation of financial subsidies, and strictly enforce the accounting discipline to prevent new debts and to create better external conditions for Liaoning to invigorate its economy.

B. Deepen Enterprise Reform, Particularly Implement the 11 Policies and Measures for Enlivening Large- and Medium-Sized Enterprises, Accelerate the Pace of Technical Renovations

We should regard the work of further improving and developing the business responsibility system as the emphasis in deepening enterprise reform. While enlivening large- and medium-sized enterprises, we should gradually transplant the operation and management mechanism fostered by the "three capital" and town-run enterprises among county-district-run enterprises; we should engage in large-scale operations and carry out overall reform in the systems of leadership, distributions, personnel affairs, and worker employment, as well as in business styles and organizational setup, so as to enhance the vigor of enterprises.

We should unswervingly implement the policy and measure of enlivening the large- and medium-sized enterprises. With state support, we should concentrate all available financial and material resources on implementing to the letter the 11 policies and measures of enlivening the large- and medium-sized enterprises. A good job should be done in releasing the state small loans for technical renovations one at a time to ensure the fulfillment of production targets on schedule. We should reduce, according to the conditions, the mandatory plans for large and medium-sized backbone enterprises; have enterprises use all income for the development of new products, which have increased from the expansion made by enterprises in self-conduct sales; adequately upgrade the depreciation and reestimate the fixed assets of enterprises to accelerate the reform; enhance management over the funds for developing new products, which have been retained by enterprises, and successfully utilize the funds; and enforce within the province's authority the system of releasing loans with different rates of interest to encourage the production of commodities enjoying brisk sales.

We should closely integrate technical renovations with the structural readjustment of industries, products, and enterprises. Efforts should be made not only to deal with

the old problem of enterprises, products, and crafts and technologies; but also to concentrate efforts on readjusting the structure of industries, products, and enterprises. This represents a long-term task and the current work which must be done successfully through efforts.

3. Foster the Idea of Combating Disasters To Reap a Bumper Harvest and Ensure a Good Agricultural Harvest This Year

It is very possible for the province to suffer the disasters of drought, waterlogging, insects and pests, and early frost, particularly in the latter half of the year because there have been low temperatures, much rainfall, less sunshine, the repeated occurrence of natural disasters, more serious disasters in specific areas, and the generally slower maturation of major crops, since the beginning of this year. Our province is entering the main flood season and we should concentrate on combating serious disasters and preventing serious flooding.

A good job should be done in implementing the "bumper harvest" plan. We should seize the current favorable opportunity to enhance the field management in the late period, to apply fertilizer in a timely manner, to eliminate insects and prevent plant disease, and to seek output and economic results from management. We should implement the advanced measures of increasing production to ensure the fulfillment of the "bumper harvest" plan on 3.4 million mu of farmland covered by the state assignment and 1.7 million mu of farmland covered by the province's assignment. Efforts should be continuously made to upgrade the building of service systems in rural areas and the coordination between agricultural department and the departments of planning, commerce, finance affairs, and trade; and to ensure the production and supply of means of production, including fertilizer, agrochemicals, and farm machines.

4. Mobilize the Forces of Various Social Circles Throughout the Province and Vigorously Develop the Collective Economy in Both Urban and Rural Areas

We should implement in a down-to-earth manner the tasks, targets, policies, and measures adopted at the industrial work conferences held by the province, counties, districts, townships, and villages. The focal point should be on adequately distributing funds. A good job should be done in implementing the policies on personnel transfer, contracting systems in tax and profit, and the preferential treatment in tax revenues. Meanwhile, attention should be paid to studying and dealing with the new situation and problems cropping up in the enforcement of these policies and measures and to continuously improving them. The provincial people's government has organized the five large enterprises, including the Anshan Iron and Steel Company, the Shenyang Electric Cable Plant, and the Dalian Cold-Rolled Steel Plant, to form an itinerant report group to introduce their experience and to help towns and townships develop enterprises. We also encourage town-run enterprises to go to large enterprises to learn development from them. This will promote the enforcement of

the principle of developing urban enterprises to bring along rural ones, developing large enterprises to bring along small ones, and of developing heavy industry to bring along light ones, as well as to strive to enable the collectively owned enterprises in both urban and rural areas to make a breakthrough in progress sooner.

5. We Should Continue To Enliven the Circulation Sphere and Expand Domestic and Foreign Trade

Bringing in state-owned commerce as the main circulation channel is a priority of the circulation sphere in the latter half of the year. Industrial and commercial departments should cooperate closely with each other, studying ways to expand the marketing of products. In line with the tactics of invigorating and widening the circulation sphere, the industrial and commercial departments should make concerted efforts to market local products. We should pay firm attention to solving the difficulties in marketing grain. We should strive to empty some storehouses by the end of September so as to welcome the grain and oil-bearing crop purchasing season. We should also positively collect funds, firmly attend to building granaries, and make good preparations for purchasing autumn grain.

We should further accelerate the pace of opening the province to the outside world and strive to expand the export and foreign exchange earning capacity. We should give full scope to Liaodong peninsula's favorable conditions of opening itself to the outside world and extensively conduct economic and technological exchange with foreign countries. First, we should have an overall plan for coordinating development of foreign economic relations and trade, and jointly develop foreign trade. Second, we should continue to speed up the readjustment of the commodity structure in line with the principle of supporting the production of quality products with low production cost and restricting the production of poor-quality products with high production cost. Third, we should positively and steadily develop economic cooperation with foreign countries, focus the use of foreign capital on technological transformation, and try to run enterprises with foreign capital and foreign advanced technologies. Fourth, we should continue to build development zones, processing zones, and scientific and technological park zones to bring their functions and influential power into full play. Fifth, we should further deepen the reform of the foreign trade system, continue to perfect the contracted responsibility system, and strive to increase profits and reduce deficits. Sixth, we should pay attention to the international market trend, guide enterprises to upgrade their products' competitiveness, and strive to register a great increase in exports.

6. We Should Mobilize the People of the Whole Province To Actually Tighten Our Belts for Several Years, and Strive To Improve the Financial Situation

We should mobilize the people from higher levels downward across the province to form an atmosphere of tightening our belts. We should carry forward the spirit

of arduous struggle and self-reliance; turn the passive economic situation into the people's conscious action; strive to increase production, practice economy, increase production, and reduce expenditures; and jointly suggest ways to improve the financial situation.

We should strengthen the management of tax revenues and vigorously organize revenues. Governments at various levels should assign tax collection tasks to units and responsible persons and carry out the system of responsibility for collecting fixed-quota taxes. We should continuously pay firm attention to collecting taxes and profits from enterprises that are behind in payments, look on this as something that must be done on a daily basis and firmly attend to it, pay particular attention to collecting the taxes and profits from the enterprises with larger amounts of default taxes and profits, and strive to clear up new default taxes and profits soon and to collect most of the old default taxes and profits by the end of this year.

Unreasonable expenditures must be strictly controlled. We must try every possible means to reduce administrative expenses, not exceed the target of administrative expenses fixed by the province, and strictly control the establishment of new organizations and the increase in the number of working personnel. We should vigorously reduce public expenses. The meeting expenses should be reduced by 10 percent from the previous year. We should intensify the management of budget and strengthen the supervision over finance. We should continue to consolidate the financial order and promote the setup of financial legal system. It is necessary to strengthen the management of the revenues and expenditures covered by budget.

In use of capital, we should guarantee key projects and badly needed projects; and give priority to the supply of the funds for accelerating technological transformation and promoting the county and township economic development, the special aid for agriculture funds, and the funds for grain and oil-bearing crop price hikes.

The tasks for national economic and social development, particularly the tasks for industrial production and revenues, are extremely arduous in the next half of the year. However, there are many favorable conditions. Only when the people from high levels down, across the province, seek unity of thinking, are inspired with enthusiasm, work arduously, and firmly attend to their work, will the province be able to improve its economic situation as soon as possible.

FINANCE, BANKING

Revise Central, Local Financial Revenues

92CE0031A Kunming JINGJI WENTI TANSUO
[INQUIRY INTO ECONOMIC PROBLEMS]
in Chinese No 4, 20 Jul 91 pp 10-13

[Article by Huang Ming (7806 2494), Hubei Provincial Department of Finance: "More Discussion of Making

and Dividing Up the Financial 'Cake' Between the Central Government and Local Governments"]

[Text] 1. A Big Financial "Cake" Has To Be Made Before It Can Be Divided Up Between the Central Government and Local Governments

One view today maintains that the financial resources that the central government has accumulated in recent years are being increasingly depleted, and that in order to bolster its macroeconomic regulation and control capabilities, the central government must increase central government financial revenues as a percentage of the whole country's financial revenues. The central government has to amass financial resources. Analysis leads us to conclude, however, that there has been no depletion of the financial resources that the central government has amassed in recent years. During the period 1979 to 1989, central government revenues as a percentage of total national financial revenues grew year by year, increasing from 14.3 percent in 1979 to 39.4 percent in 1989 in a 23.1 percentage point increase. In 1989 after local governments paid revenues to the central government as the system requires, central government revenues amounted to 55.6 percent of total national revenue. At more than 50 percent, revenues are not likely to be too small.

Actually since implementation in 1980 of the system of the system of dividing revenues and expenditures between the central and local governments and holding each responsible for balancing its own budget, the central government has inaugurated a series of measures to get financial resources from local governments. Examples are as follows: (1) A rise in bank interest rates, and the hiking of railroad tickets and airfares have resulted in a transfer of local government financial revenues. They have increased local enterprises' costs (or expenses), thereby reducing the revenues that they pay to local government treasuries. In addition, the transfer to enterprises that the central government owns (finance and insurance institutions, railroads, and the airlines) has increased the central government's financial revenues. (2) The central government took good enterprises or firms away from local government, giving them losing enterprises or firms. For example, it took away tobacco enterprises and handed over losing foreign trade enterprises. (3) An overwhelming majority of the newly inaugurated measures for increasing revenues were configured to produce financial revenues for the central government. Examples include revenue received from the issuance of treasury securities, and income from government bonds, all of which reverted to the central government treasury. Seventy percent of the national energy, transportation, and key construction funds collected from local enterprises, institutions and administrative units, and government financial extrabudgetary funds reverted to the central government treasury, and 50 percent of the national budget regulation fund collected went to the central government treasury. Most of the income derived from the rise in prices of name brand cigarettes and alcoholic beverages reverted to the central government treasury; 30 percent of taxes for takeovers of

cultivated land; and 50 percent of city and town land use taxes went to the central government treasury. (4) When the system of dividing revenues and expenditures between the central and local governments and holding each responsible for balancing its own budget was instituted in 1980, the central government made a 10 percent cut in the base figure for its payments to local governments. In 1981, the central government made a loan from all jurisdictions of 20 percent of their expenditures. This borrowing continued in 1982. In 1983, the loans were made a part of local government contracted base figures for a corresponding increase in payments to the central government. Actually, the local governments were responsible for lending money in every year thereafter. In 1987, the central government again borrowed money from the local governments, making the loans part of local governments' contracted base figures again in 1988. In 1990, the local governments once again helped the central government out of its financial difficulties. Taken together, these loans amounted to no small sum. These measures now probably produce an average of around 10 billion yuan each year from most provinces.

Thus, in a situation during the past several years in which no reduction has been seen in the central government's concentration of wealth, in which local governments have helped the central government in its financial difficulties, and in which the central government has continued to amass financial resources at the expense of local governments, why is the central government treasury still felt to be in difficulties with a deficit for several years running? Should this alarm us? The "cake" was not made big, and it is being gradually reduced in size, so what with cutting a slice here and a slice there, does the central government and do local governments feel a hardship? Have the central government and the local governments gone about the making and cutting of the government financial "cake" backwards? Both in fact and in theory, the answer is affirmative.

Increasing central government fiscal revenues as a percentage of total national fiscal revenues is, in reality, a matter of straightening out distribution relationships, readjusting the structure of distribution, and shaping a distribution pattern. Readjustment of the distribution of financial resources between the central government and local governments is only to solve the question of how to "cut the cake" when the total amount of national financial resources is fixed. It is the development of production, finding financial sources, and increasing revenues that have to do with "making the cake." Unless production develops, economic returns do not rise and revenues do not increase. Increasing central government financial revenues as a percentage of national financial revenues becomes an unattainable goal. Therefore, we must use the development of production as a foundation for the readjustment of distribution policy in an effort to increase financial revenues as a percentage of national revenue, using this as a basis for further readjustment of the distribution of financial resources between the central government and local governments so as to assure an

increase in central government financial revenues as a percentage of national financial revenues.

Practice during the past several years has fully demonstrated that in a situation of steady decline in fiscal revenues as a percentage of national income in which financial units at all levels feel the pinch, any change in the budget control system will simply mean that when one level gets more another will get less of relatively fixed financial resources. If distribution is centralized, local governments will experience financial hardship. If distribution is decentralized, the central government will experience financial hardship. Thus, for reform of the budget control system to have any significance at all, and for reform to be effective, financial revenues as a percentage of total national income must be increased first for an appropriate concentration of financial resources. Then consideration may be given to the apportionment of financial resources in this now fairly free financial environment. This is the only way that both the central government's and the local governments' financial hardships can be overcome.

2. The Way To Make a Big Financial "Cake"

Making a big financial "cake" means increasing financial revenues as a percentage of total national income. The main way to go about this is to proceed along multiple avenues using multiple methods in combination, both readjusting distribution policy and suitably concentrating financial resources while also improving collection and control.

(1) Readjustment of Distribution Policy

1. Perfection of the enterprise contract management responsibility system. The first round of enterprise contracting should serve as a basis for improving and readjusting unsatisfactory things in the system itself. Examples include a correction of the intentional depression of base figures; not allowing enterprises to retain increases in profits and requiring that the portion that enterprises do retain be used for specific purposes; permitting readjustment of the effects that changes in prices and the tax system occasion; setting contracting periods realistically, allowing long-term contracting when long-term contracting is appropriate and allowing short-term contracting when short-term contracting is appropriate instead of practicing "arbitrary uniformity."

2. A change from before-tax loan repayment to after-tax loan repayment, thereby abolishing the repayment of loans with tax money. A system of "new methods for new loans and old methods for old loans" may be instituted. By this is meant that from the effective date of the new system, old loans will continue to be repaid before taxes. All new loans will be repaid before taxes, thereby abolishing the use of tax money to repay loans. In individual cases in which the country urgently requires development of something in which repayment of funds would truly constitute a hardship, specially authorized enterprises may be exempted subject to strict state control.

3. Improvement of the transactions tax distribution mechanism in order to plug loopholes that permit a draining away from the commodity circulation realm of fiscal revenues through the operation of the two-track price system. Revision of the business tax system, putting into effect an added price excess rate accumulation tax system for wholesale businesses, recovering for the state most of the excess added price in the commodity circulation field. This would not only plug loopholes that permit a draining away of government revenues from the commodity circulation field, but would also hold down the tendency toward wild price increases, as well as help stabilize the economy and play a role in improving the economic environment and rectifying the economic order.

4. Taking stock and restructuring policies for "creating revenues," including a restructuring of "revenue creating" procedures, limiting the scale of "revenue creation," and improving financial control over "revenue creation." The various "revenue creating" institutions that administrative agencies and units operate that rely on government revenues for their existence are to be dealt with separately once they have been inventoried. Those "revenue creating" agencies that rely mostly on changing funds within budget to funds outside budget, or that rely on tax reductions or exemptions to earn money are to be banned without exception, and their assets and revenues cleared for return to the national treasury. In cases where "revenue creation" activities are legitimate, financial control is to be increased, various fee collection standards and limits on fee collection standardized. In addition, their earnings are to be linked to expenses and placed under fiscal budget control.

(2) Proper Centralization of Financial Resources.

1. Appropriate increase in the business tax rate, particularly the bank insurance business tax rate. The increase should be made on the basis of requirements for improving the economic environment and rectifying the economic order.

2. Improvement of methods for collecting the added value tax, a unified system instituted for deducting the tax on the basis of the amount of tax shown on receipts that are issued as a means of preventing and reducing the loss of tax money. At the same time, the added value tax rate should be suitably raised on certain high priced goods on which the profit is large.

3. Levying of an investment orientation regulation tax, cancelling the construction tax. An investment tax should be levied on all investment in capital construction outside budget, different tax rates drawn up for different situations.

4. Comprehensive institution of a differential progressive individual income tax to begin building a complete system of different kinds of taxes. First is a widening of the tax base, collecting small amounts of tax from a large number of people, all possible done to bring all individual income within the purview of the tax base in a widening of tax collection coverage, all citizens thereby

having a duty to pay taxes. Second is a readjustment of tax rates to narrow tax brackets and a lowering of the threshold point for income tax collection. The threshold point should be set lower than the average per capita income, and the maximum tax rate should be 80 percent or higher. Third is abolition of the wage regulation tax and the tax on bonuses for the building of a tax system made up of various kinds of taxes, including a property tax, a gift tax, and an inheritance tax that is in keeping with the multiple sources of individual income and the needs of many and diverse forms, thereby effectively regulating the total income of all members of society.

5. Readjustment of the agricultural tax rate, appropriately raising the percentage of fiscal revenues that derive from agriculture. While maintaining steady growth of peasant income and increased state investment in agriculture in keeping with changes in the present make-up of agricultural production and operating methods, agricultural tax rates should be readjusted in the comprehensive implementation of an agricultural tax collection system. When the harvest is less than in normal years, the amount of tax should be figured on a new appraisal of yields.

(3) Improvement of Tax Collection Control.

1. Improved tax collection control to cut down on tax evasion and cheating, putting into the treasury promptly and in full according to law all taxes collected as policy requires. Tax reductions and exemptions must be strictly controlled. Except for industries that the state deems scarce and factories that produce goods in short supply, as well as other special circumstances in which the payment of taxes is truly a hardship that require strict approval, tax reductions and exemptions are to be halted. Tax reductions and exemptions may not become a method for supporting production financially. Second, is continued major tax and financial checks to find and have paid into the treasury taxes that have been evaded or are in arrears. Third, is improved individual tax collection control, attacking tax cheating and evasions to increase fiscal revenues.

2. Restructuring of the subsidization of enterprise losses, firm action taken to convert losses into profits in order to increase fiscal revenues. First is the restructuring of the subsidization of food enterprise losses, the national treasury no longer subsidizing foodstuffs on which price restrictions have been removed. Second is restructuring the subsidization of grain enterprises' losses. Consideration may be given to further removal of price restrictions on grain that food and beverage service trades and the brewing industry use. Sales of grain at parity prices and grain for persons in strenuous occupations can be reduced. Third is a major effort to turn losses into profits. Various forms of profit and loss contracting may be instituted for enterprises incurring losses for policy reasons, no subsidies provided for losses beyond a certain figure and the enterprise retaining sums obtained as a result of reducing losses. Enterprises that lose money as a result of inept operation should be better administered and managed to increase their returns, turning losses

into profits within a limited period of time. Better administration and management of food enterprises, full promotion of a separation of grain operating profits and losses, and extending accounting to individual households are needed. More should be done in the way of financial control of grain enterprises, active efforts made to reduce sales, using the tapping of potential in enterprises as a means of reducing loss subsidies.

3. Enterprises should be helped improve administration and management in an effort to improve their economic returns in order to find a stable source of funds that increases fiscal revenues. Doing this will require a decrease in consumption, thrift in expenses, and prevention of waste. Second is the need to improve product quality, producing more products that find ready markets. Third is the need to improve enterprises' financial management and economic accounting, strictly enforcing a financial system to prevent arbitrary assessments and indiscriminate pressures on costs.

3. Ways To Divide the Financial "Cake" Between the Central Government and Local Governments

(1) The central government can get a larger portion only from future revenue increases.

In the present situation in which local governments at all levels are already at a subsistence level, there is little leeway for local government expenditure cutbacks. Because local government payments of routine administrative expenses are gradually increasing as a percentage of total local government expenditures, and constructive expenditures are decreasing year by year as a percentage of total expenditures, 70 percent of local government expenditures made for routine administrative expenses, 10 percent made for payments of price subsidies of a policy nature, and 7 percent made for expenditures for special purposes. This means that nearly 90 percent of local expenditures are fixed. The remaining 10 percent are also basically to maintain simple reproduction and for enterprise renovation and technological transformation.

The present central government and local government financial situation suggests that the central government cannot rely on loans and a decrease in local government financial resources as means of realizing government financial system reform needs. Instead, it will have to amass more funds relative to local governments from future revenue increases.

In obtaining more funds from future increases in revenues, the central government will attain two objectives as follows: First is a distinction among various kinds of taxes that will help stir local government interest in amassing revenues, thereby advancing an overall increase in revenues. In this way both the central government and local governments can get a share of financial resources from the increase in total revenue. Second is a rational determination of the percentage of the increase that is to be shared between the central government and local governments. Overall, the central

government financial administration must get an increased apportionment from the future revenue increase.

(2) In distinguishing among the various kinds of taxes, the method of "holding down both ends and adding to the middle" must be adopted.

"Holding down both ends and adding to the middle" in distinguishing among the various kinds of revenues means a relative reduction in the fixed portions that the central government receives on one end and local governments receive on the other, and a relative increase in the portion that the central government and the local governments share in common.

China's present circumstances suggest that state-owned enterprises' income taxes may not become a fixed source of revenues for the central government. Because there has been no increase in the state-enterprise income tax in recent years, meaning that the central government has gained no money from increased revenues, and inasmuch as events during the past several years show a negative figure for state-owned enterpriser income taxes, regulation taxes, profits tendered and subsidies for plan losses, fixed revenues for the central government have had no meaning. In addition, neither can the three large transaction taxes serve as a fixed source of revenues for the central government. This is because the three main transaction taxes, namely the product tax, the added value tax, and the business tax are the main industrial and commercial taxes; they are the main source of revenue for local governments and are of crucial importance to local governments. To take away these three main transaction taxes would be tantamount to taking away from local government the powerhouse for their development of industrial and commercial enterprises. This would be bound to damage economic development and the increase in revenues. The only tax that might serve as a fixed source of revenue for the central government is a special regulatory tax needed for national macroeconomic control. This would take the form of a central government directly administered industry-wide tax such as customs duties, or a business tax or income tax paid by railroads and airlines. Second is a regulatory tax needed for national macroeconomic control such as a resources tax, a construction tax, or a tax on bonuses.

In putting taxes that provide a fixed source of revenues under local government administration, the sources of taxes should be diverse and the links in collection not readily controlled. Furthermore, they should be taxes that do not have a direct affect on the macroeconomy, and they should be taxes that help local government regulate the economy and develop the building of basic facilities.

The kinds of taxes having greatest potential for increasing revenues should be jointly shared between the central government and local governments. This will help arouse the interest of both the central government and local governments. Such taxes include product taxes,

added value taxes, and business taxes, which account for about 90 percent of local government revenues.

(3) Setting of a rational percentage figure for sharing between the central government and local governments.

Since China is a vast and unevenly developed country, the percentage of revenues to be shared should not be the same everywhere in the country. A different percentage should be used as the situation in different areas warrants. The whole country may be divided into three kinds of regions as follows: Municipalities under direct central government jurisdiction and coastal provinces, as well as plan-designated cities would be in the first category. The five minority nationality areas and areas regarded as minority nationality areas for purposes of administration, as well as provinces instituting special policies would be in the third category. All the rest would be in the second category.

In category 1 areas, the revenue sharing percentage should be 6:4, i.e., 60 percent for the central government and 40 percent for local governments. The jointly shared revenues might be further shared at two levels, namely a 70 - 30 sharing of product tax, added value tax, and business tax revenues, 70 percent going to the central government and 30 percent going to local governments. The sharing of other kinds of revenue would be 50-50, the central government and local governments each getting 50 percent.

In category 2 areas, revenue sharing should be 30 - 70, the central government receiving 30 percent and local governments receiving 70 percent. Alternatively, a two-level sharing of revenues might be instituted in which revenues from the three main transaction taxes, i.e., the product tax, the added value tax, and the business tax, are divided 30 - 70, the central government receiving 30 percent and local government receiving 70 percent. All other tax revenues would be shared 20 - 80, 20 percent going to the central government and 80 percent going to local governments. So long as the percentage for revenue sharing is 40 - 60, revenues received from taxes in category 2 area could be shared at different percentages. For example, revenues from the product tax and the added value tax might be divided up 40 - 60, business tax revenues and state-owned enterprise income tax revenues going to the local governments.

In category 3 areas, the local government should receive 100 percent of the apportionment. This is because even when revenues in such areas are entirely retained by the local governments, they still do not cover expenditures. Were a sharing of revenues to be instituted in such areas, the central government would have to correspondingly increase its subsidies to these areas. This would make no real sense. If the central government wants such areas to make a certain contribution, it might share revenues on a 20 - 80 or a 10 - 90 basis, or it might make a proportional division of revenues from a small number of major tax forms.

On the basis of such a division of tax revenues, the amounts would remain the same for those areas currently receiving central government subsidies, i.e., most provinces would be able to use the revenues they retain to cover their expenditures. In view of the different situations in different jurisdictions, local governments would be happy to accept a different method of dividing up jointly shared revenues, and the central government would also increase its financial resources.

(4) Need To Express the Principles of Fairness and Efficiency in Setting Base Figures

1. No single year should be used as a base figure; the average figure for a certain period should serve as the base figure. This is because of the happenstance nature of actual receipts and disbursement figures for any given year. Were a single year to be used in setting the base figure, local governments would worry every year about whether the figure would be high or low, and they would be fearful about the consequences of an actual high or low figures in the new system. They would consequently take various unnecessary "remedial actions" detrimental to the fairness, reasonableness, and scientificness of the base figures. By figuring base figures for a period of years, not only can an average be reached on the basis of actual figures for several years running, but several representative years can be chosen from the period to find an average. When base figures are figured on a period of years, special factors in a small number of areas must also be taken into consideration, principally the special circumstances that major and unforeseeable factors produce, revisions made taking into proper account the average for places all over the country.

2. The base figure for expenditures cannot be figured in terms of actual expenditures; it must be figured in terms of financial resources. In figuring the base figure for expenditures, the actual revenues in each jurisdiction for a period of time must be taken to figure the financial resources that should be made that the system prescribes. This would help spur local governments organize their revenues, first of all, not "hiding wealth in enterprises." Only by collecting more could they get a higher "expenditure base figure." Second, it would obviate some local governments' falsification of expenditures, creating false deficits. Third, it would encourage thrift in expenditures since the "base figure" would have no connection to whether expenditures are high or low.

3. The central government should issue some special funds for inclusion in each jurisdiction's expenditure base figures. For items of a recurring nature or for which the final settlement figure is the same year after year, the central government should issue funds in an amount consistent with the base expenditure figure arrived at for each jurisdiction. The central government should make a minimum disbursement of funds for items that recur each year but in different amounts, making a supplementary disbursement for the remainder at a later time. The central government should keep a tight reign over special funds to ensure that they go for special, important, and

unforeseeable purposes, and for things requiring centralized allocation nationwide. This will not only help local governments plan how they will use funds in a unified way in order to employ them to best advantage, but it will also help pretty well standardize the way in which the central government and local governments divide up financial resources.

4. The central government should centrally use a portion of each jurisdiction's expenditure base figures for use in regulating balance among different jurisdictions in accordance with the principle of fairness and efficiency. When figuring each jurisdiction's base figure for expenditures, the central government might reduce by a certain uniform percentage the amount of financial resources each jurisdiction will receive, say by 5 percent, most of this reduction to be used to regulate problems whereby some jurisdiction's expenditure base figures are not entirely rational, or there is an unequal sharing of weal and woe. Once the adjusted figures are set, the amount is to be returned once again to each jurisdiction's expenditure base figure. The financial resources deducted should be used for two primary purposes as follows: First is requirements as calculated using the factors method, i.e., calculations based on various factors such as each jurisdiction's level of economic development, geographical circumstances, transportation conditions, cultural and educational level, and government revenue, properly adjusting genuine inequities. Second is considering expenditure base figures in accordance with national economic development policy and the state of a region's economic development for areas, enterprises, or projects whose development requires national support, and for major problems requiring help for solution.

Commentary on Clearing Debt Chains

91CE0792A Beijing JINGJI RIBAO in Chinese
7 Sep 91 p 1

[Commentary: "Leadership and Rank and File Are of One Mind in Paying Attention to Clearing Debts"]

[Text] Exactly three months have passed since the 146th State Council Business Meeting made a major policy decision on breaking "debt chains" on 1 June and the nationwide conference on the work of clearing "debt chains" convened on 31 August. During these three months, people of all walks of life have invariably showed great concern over this major action in China's economic life.

Pilot areas for clearing debts in the northeast region have achieved gratifying results. The work of clearing debts nationally in an overall manner will soon begin. People have basically reached a common understanding with the State Council regarding the clearing of "debt chains" as a breakthrough in rectifying the economic order, invigorating large- and medium-sized enterprises and improving economic efficiency, on the serious and harmful nature of the "debt chains," and on the importance and urgency in clearing debts. However, this is merely an initial step. The important issue is whether or

not governments at all levels, and all banks and enterprises, in the course of performing their duties, can keep to the stand of the state, consider the whole situation, proceed from overall interests, make concerted efforts to carry out this work efficiently, thoroughly and meticulously, and ensure that they actively and steadily handle new situations and new problems that crop up in the course of controlling production and reducing inventories.

The attempt to clear debts in fixed assets involve a great many departments. It is a extremely complicated systems engineering project. This demands that the party and government leadership pay full attention to this task, and major leaders personally come to the fore, take command in carrying out coordination work, conduct checkups, and implement the task on a solid basis. Banks play a significant role in the current job of clearing debts. Timely loans and careful and well-organized operations in clearing debts should be regarded as key issues. All this demands that banks, particularly those at the basic-level, fully understand the policy on clearing debts, familiarize themselves with methods in clearing debts, and raise their ideological awareness to ensure progress and quality in clearing debts. Enterprises must display a fine style of work, actively take the initiative to acknowledge debts and repay them; and earnestly raise funds to pay back what they owe. This work can definitely be done well if the leadership, rank and file, and the people in all sectors are of one mind in performing their task.

At present, we must pay full attention to the following three tasks: First is ideological and political work, mass mobilization, and raising our awareness. Second is the work of strengthening ourselves organizationally, and establishing a strong and well-organized system to clear debts. Third is the work of training and education aimed at training all levels of bank personnel, to the extent of training clerks in bank branches. Otherwise, the mechanism of clearing debts will fail, if one link stalls. At the same time, it is necessary to train factory directors and managers, and to clearly explain our policy and discipline. In this regard, we must particularly emphasize ideological and political work. As for regions, it is necessary to resolutely oppose local protectionism and departmentalism, and correct the thinking of "receiving money only without paying anything," of "only paying with what is received" and of "receiving more while paying less." Enterprises must eliminate the concepts that "debts are justified," "debts are advantageous," and "debts yield good economic results"; and combat the thinking of "receiving more while paying less" and of "receiving first while paying later."

The process of clearing "debt chains" is also one of improving economic order and strengthening discipline in closing accounts. "Debt chains" reflect a kind of economic and legal relation. Legal methods play an significant role not to be ignored in clearing "debt chains." Thus, while using administrative and economic means, we must also pay full attention to and draw

support from legal means. In clearing debts, various localities must invite comrades from the judicial departments to take part.

On solving the problems of the two original sources of debts, enterprises' serious deficits and huge overstocking of products, the State Council has decided to adopt drastic measure to deal with the situation; that is, to link overstock with credits. Production of overstocked products will be curbed or suspended, and idle circulating funds will turn into active money for technical innovation investments, and for equipment and wages. All this will in turn evoke social demand. This measure requires little investment, but it yields quick results. It will be of immediate significance in readjusting the product mix. Now, the speed of industrial production is high, while overstocking of products and enterprise losses have caused serious damage. If we let things run their course, it will be hard to put them in order in the future. Curbing production means to close, suspend or merge some enterprises and transform their production lines. It is indeed difficult to do so. However, we must be determined to carry out this task. Now, China is politically stable and society and markets are also stable, and is the best time and environment to solve this problem. Governments and enterprises in various localities should correctly handle the relations between the part and the whole, and between the immediate interest and the long-term interest; and actively, resolutely, prudently, steadily and consciously carry out this task.

Clearing "debt chains" is the breakthrough in solving the many contradictions in various economic operations at present. It fully shows the basic maladies that exist in the current economic system and mechanism. Therefore, we must link clearing and preventing debts with reforms in all fields, and enthusiastically carry out coordination work to promote reforms. We already face this issue in all seriousness. Viewing the current situation, the whole country, particularly the Northeast Region where the work of clearing debts started, must pay special attention to new debts that arise after old ones are cleared. The question of debt prevention merits our full attention. Without any new debt, there will be a day when all old debts are repaid. However, if we start to assume new debts after clearing up old ones, we will once again fall into the dreaded trap of "debt chains." There are only two measures that can be used to prevent debts. The first is to resolutely overcome localism, proceed from the whole situation, and do things in strict accordance with proposals put forward by the State Council to close, suspend, merge and change production lines for products that are already stockpiled. The second is to keep pace with the various measures to continue and coordinate reforms, prevent "debt chains" from emerging by improving our economic operational mechanism and order, and use economic, legal, administrative and other means to destroy the hotbeds that form "debt chains" so as to guard against the development of a situation in which new waves rise when the old ones have hardly subsided.

To closely coordinate with the major plan made by the State Council to clear debts, our newspaper has begun a special column on the front page since June, entitled: "Reports on Tracking 'Debt Chains'." We have carried a series of reports on each stage of the development in clearing debts in the Northeast Region with emphasis on Liaoning. We reported on the problems and solutions, and experiences and achievements obtained. We also pointed out the guiding ideology, major tasks and specific policy and operational measures in clearing debts throughout the nation; and analyzed the deep-rooted causes for creating "debt chains." We also reported on the situation in dunning and repaying debts in some areas. During this period, our editorial department received letters from many readers in various localities throughout the country, providing encouragement for the special column. We feel extremely gratified, and wish to express our sincere appreciation for their kindness. Today the special column has accomplished its task for a specific stage, after reporting on the nationwide meeting on the work of breaking "debt chains," and summarizing the "battleground" of the "Liaoning-Shenyang Campaign." However, our newspaper has not yet finished reporting on "debt chains."

We believe that the current drive to clear debts will definitely achieve its expected goal. Our newspaper will closely coordinate with governments at all levels and enterprises, and continue to work together until the phrase "debt chains" disappears in China's economic life.

MINERAL RESOURCES

Geologists Find 16 Million Ton Pyrophyllite Deposit

OW1010131791 Beijing XINHUA in English
1140 GMT 10 Oct 91

[Text] Fuzhou, October 10 (XINHUA)—A pyrophyllite deposit with a reserve of 16 million tons has been found in Fujian, the largest of its kind in the country.

The deposit was found as China and the U.N. Fund for Natural Resources Exploration and Recirculating jointly carried out a mineral exploration throughout the province. The exploration, with a total investment of 3.09 million U.S. dollars, began in September 1989. It was the first investment project with U.N. funding ever conducted in exploration of solid minerals in the country.

A larger part of the country's pyrophyllite deposit was found in the province. The ore is a basic material for a number of industries, including refractory material, porcelain and glass fibre.

The newly discovered deposit is located in the Dongzi area of the Fuqing County of the province. In addition, the joint exploration has discovered two four million-ton deposits in the Gutian County of the province.

INDUSTRY

Journal on Invigorating Old Enterprises

HK1908051091 Beijing QIUSHI in Chinese No 14,
16 Jul 91 pp 33-35, 47

[Article by Zhang Longzhi (1728 7893 3112) and Wang Xingqi (3769 2502 3823) of the Economic Development Research Center of Liaoning Province: "Let Old Enterprises Radiate Vigor of Youth—Roundup of Seminar on Accelerating Technological Transformation of Old Enterprises"]

[Text] In the middle of May, the Development Research Center under the State Council and the Liaoning provincial people's government convened, in Shenyang City, a conference on the technological transformation of old enterprises. The participating comrades engaged in serious discussion in the light of the realities of the old industrial base of Liaoning, deepened their understanding of the importance and pressing nature of accelerating the technological transformation of old enterprises, and put forward valuable ideas on how to do well in the technological transformation of old enterprises.

I. Key to Invigorating Old Enterprises Lies in Accelerating Technological Transformation

The participating comrades held that over the last 40 years, Liaoning, as an area where large- and medium-sized enterprises are centered, has provided the whole country with a large volume of raw and semifinished materials, mechanical and electrical equipment and funds, has supplied a large number of skilled personnel and, in our country's socialist modernization, has fully brought into play its role as an old industrial area. However, for various reasons, the majority of large- and medium-sized enterprises in Liaoning have seriously aged, leading to a decline in economic results and insufficient development reserves. Everybody pointed out that large- and medium-sized enterprises are the backbone of our country's economy and we cannot allow them to decline. At the same time, an input-output analysis showed that, for technological transformation, the construction time and funds required are both about two-thirds those required to build new enterprises. This is thus an economic and swift way to develop the economy. Thus, the idea that we should discard the old and build anew, of liking new enterprises and disliking old enterprises is not a desirable idea and is not in accord with the situation in our country.

The participating comrades pointed out that using advanced technology to transform old enterprises is not only meaningful in terms of enabling old enterprises to radiate a new vigor; it is also of major significance in guaranteeing stable economic and social development, in realizing the second- and third-step strategic goals, and in improving overall economic performance. In the past, because we gave insufficient attention to technological advance and we traveled an "extension-type" development road, it resulted in production technology and product standards fluctuating at a low level, and they

could not satisfy the demands of economic construction and the people's lives. How are we to change this situation? Generally, most large- and medium-sized enterprises and backbone enterprises in various industries around the country have quite a large volume of technological personnel, quite complete production facilities, and quite a high level of technology. Thus, they have quite a large volume of technological stock. However, if this stock is to be fully mobilized and its major role is to be brought into play, some "activator" needs to be added. This is what we refer to as technological increment. The practice of many enterprises has proved that adding a small volume of input to old enterprises and using it to transform the high technologies can swiftly tap the potential of the existing "stock" of old enterprises and attain good results in terms of activating stock, optimizing stock, and promoting a rise in the value of stock. This allows some traditional technologies and traditional industries to skip some technological development stages and reach a quite high level, and allows the old enterprises to radiate vigor. As soon as the technological level of large- and medium-sized enterprises, which are the backbone and core of the national economy, is raised, the backward overall situation of technology in our country will be basically changed. If the backward situation of technology, equipment, and techniques in the old enterprises is not swiftly changed through technological transformation so they are invigorated, it will not only affect current economic development, but the problems met in future will be greater and more difficult to resolve and the effects they bring will be more serious.

Also, if the situation of some large- and medium-sized enterprises which have stopped production, closed half their production capacity, or have poor economic performance is not reformed, these will undoubtedly endanger economic development and social stability and affect the improvement of the socialist public ownership economy.

Seen from the long-term development of our country's economy, if we are to achieve the second-step and third-step strategic goals of our country's economic development, we must also speed the technological transformation of old enterprises, so our country's production technology level is raised by a big step. Otherwise, these goals will not be achieved. Everyone knows that the per-capita volume of energy and other resources in our country is lower than the world average, while the various resources consumed to produce a unit product is far higher than the world average. According to World Bank estimates, the total volume of our country's material consumption is similar to that of Japan, but our GNP is less than one-quarter that of Japan. This is a major reason why our country's speed of economic growth is quite high, but the speed at which national income grows is not swift. A basic cause of this is that the level of production technology in our country is quite low. Thus, if we do not quickly change the situation of technological backwardness and only seek increases in total volume, there will be no way for the limited

resources in our country to meet the needs of economic doubling; or if the economy does see a doubling, it will only be at the heavy price of serious damage to resources. Thus, the only way to realize the second- and third-step strategic goals in our country's economic development is to rely on scientific and technological advance and continually raise the level of production technology, reduce the various types of consumption per unit of output and greatly increase the economic and social efficiency of resources and funds. If we are to do this, the key lies in first transforming the old enterprises, so they cast off their old forms and radiate the vigor of youth.

II. Several Problems Which Need To Be Resolved in Accelerating Technological Transformation of Old Enterprises

At the conference, on the basis of seriously summing up experiences, the comrades put forward some problems which need to be resolved in accelerating the technological transformation of old enterprises. These can be grouped into the following aspects:

1. On the guiding ideology and goals.

The participating comrades widely held that in the technological transformation of old enterprises, it is necessary to uphold and promote the principle of technological progress and, through gradual transformation level by level, to reduce the technological disparity between the old enterprises and enterprises in the same industry abroad. In this way, the level of the equipment will be gradually improved and it will be possible to work hard in applying the technology and catch up to the advanced level in the developed countries. Thus, in technological transformation, we cannot engage in "reproduction of antiques" and we cannot travel the road of blind expansion of production capacity at a low level.

The practice of transformation of old enterprises in Liaoning shows that feasibility research is a precondition for doing well in technological transformation and guaranteeing results. Before carrying out transformation, it is necessary to get a good idea of the degree to which raw materials and other production conditions can be guaranteed, the percentage of the market the products will be able to hold, and the strategy for opening up markets, and ensure that the plans are feasible to guarantee that technological transformation has good output results. Only in this way will it be possible to continually accumulate funds so enterprise equipment and production technology can be continually improved and a fine cycle can be achieved. Otherwise, it will occur that, after the transformation projects are put into production, equipment will lay idle or products will be stockpiled, with the result that the technological transformation will not be able to bring its due role into play.

Taking products as the key aspect is the principle to which technological transformation should adhere. One, two, or several products should be selected and, centering on the raising of the grade and quality of the products, there should be a reduction in energy and

material consumption to lower the per-unit cost of products and do well in technological transformation. Without good products, all we will be doing is expanding the output capacity of old products. With such technological transformation, it is generally very difficult to achieve success.

The comrades held that because the old enterprises were subject to restrictions in both funds and production tasks, in general the tactic of complete transformation should not be adopted. Only key equipment and key technologies should be subject to transformation. At the same time, we should stress doing well in coordinating and bringing into play, in a timely way, the capacities of new equipment and new technologies to achieve good input-output results.

Everyone also held that seen from the needs of promoting the technological transformation of old enterprises, it is imperative that we combine electronic technology with industrial technology and use electronic technology to transform traditional industry. This requires the electromechanical industry to be a step ahead and that it strives to accelerate development so it can actively provide to the industrial departments excellent-quality, low-consumption, high-efficiency, and advanced equipment. This work should be combined with the work of weeding out backward equipment to guarantee the propagation and application of advanced equipment in technological transformation.

2. On Importing, Digesting, Absorbing Advanced Foreign Technology.

The comrades held that, as our country is quite backward on the overall industrial technology level when compared to the developed countries, in the technological transformation, the importation of foreign technology is a way to reduce the disparity between our country and the world's advanced level as quickly as possible and is a policy which should be adhered to for quite a long time. However, the importation itself is not the goal. Rather, this provides a high starting point for our own creation, for increasing our strengths and strengthening our capacity to develop on our own. Thus strengthening the digestion and absorption of imported technology and, on that basis, creating new technology is a principle which must be adhered to in technology import work. Seen from the situation in Liaoning, the tendency to stress the importation of advanced technology and look lightly on technology development, to stress hardware and look lightly on software, and to stress use and look lightly on digestion, still exists to a certain degree and there needs to be further progress in this respect. First, prior to import, the managing departments need to organize scientific research and design units together with the enterprises to jointly research and formulate a plan for importing, digesting, and absorbing the technology and then using it to produce Chinese technology. They should then grasp well the various links of products, raw materials, parts, and equipment and then organize a sequence by which the technology can be produced in China. Second, there must be necessary

funds support for the digestion and absorption of imported technology. In future, a certain amount of funds should be retained from scientific and technological development funds to be used solely for the work of digesting and absorbing imported technology. Third, the interests relationship between the enterprise which uses the imported technology and the scientific research unit responsible for the work of digestion and absorption must be properly handled. As enterprises often only stress the use of imported technology and overlook digestion and absorption, scientific research units often do not get effective cooperation, resulting in it being difficult for them to carry out their work. Certain measures should be adopted by which to handle well the interests relationship between the two to motivate enthusiasm on both sides and ensure that they cooperate and support each other. Fourth, it is necessary to formulate and implement relevant policies to guarantee that there is a reliable market for products developed and produced through digestion and absorption of imported technology. At present, there exists the tendency whereby, although products produced by digestion and absorption of imported technology have already reached, in qualitative and functional terms, the level of similar foreign products, the domestic users are unwilling to purchase and use them, and would prefer to engage in duplicate purchase from abroad.

To avoid this phenomenon, we should clearly stipulate that when the technology is produced domestically and its quality is truly in accord with requirements, enterprises must use domestically produced equipment, so as to guarantee the domestic market capacity for such equipment developed in China on the basis of imported technology. Those who intentionally do not use domestically produced equipment, resulting in duplicate import, should be subject to appropriate punishments. Otherwise, the technology domestically produced through absorbing imported technology will find it difficult to swiftly enter the domestic market. At the same time, production units should strengthen product advertising, do well in after-sales service, and promote technology domestically produced through absorbing imported technology by ensuring a good reputation for it. All that technology and equipment which can be exported should be actively put into the international market, so as to increase the market share of the products.

At the conference, the comrades engaged in discussion on the question of the level of equipment to be imported. Some comrades held that as we are importing technology, we should ensure that the technology imported is of the highest level, so that through the import we can ensure that the levels of equipment and production reaches advanced international standards immediately. In this way, we will be able to swiftly reduce the technological disparity between ourselves and developed countries. Some comrades held that currently our country's level of productive forces is still quite backward and that for quite some time to come, it will be difficult for us to keep up economically and technologically with the

developed countries. Thus, in importing technology, we should proceed from reality. When we can import the most advanced technology, we should import it, but when we cannot import the most advanced technology, we should get the next best and import second-grade technology. The key lies in advanced application and this should be seen in terms of it being an advance on the existing domestic technology, so after it is imported, it can produce good economic results. They consider that, for the majority of enterprises, graded imports in steps and stages, so the advanced international level can be reached gradually is the policy which best accords with reality.

3. On applying domestic scientific research achievements and accelerating the pace of technological transformation.

Every year, about 5,000 scientific research achievements are realized in Liaoning, but less than 10 percent of these are truly turned into productive forces. The widespread propagation and application of a batch of fully developed new equipment and new technologies which can guarantee the raising of product standards and quality, raise efficiency, and reduce consumption is a major aspect of technological transformation. The participating comrades uniformly held that breaking down the system of departmental and regional regimes and promoting linkages between scientific and technological research units and production enterprises was the key to resolving this problem. The research institutes which engage in the development of products and technologies and the industrial production departments are completely separated at present. This is not beneficial to applying the achievements of scientific and technological research in industry and facilitating such achievements, and not beneficial to introducing high technologies in traditional industries. The two need to be combined. There are two ways to do this. The first is by reorganizing the form of the industrial groups, ensuring that industrial enterprises and relevant scientific research organs are combined and instituting a management structure in which scientific research and production are integrated. The second is through inviting tenders and competition, and organizing key projects to achieve breakthroughs to have the scientific and technological research enter the economic construction arena and directly serve production and enterprises. At the same time, we should perfect the management of the technology market, speed the use of scientific and technological research results in commodities, and eliminate interests obstructions to scientific and technological research achievements being applied in enterprise production.

Some comrades held that another aspect obstructing the transfer of scientific and technological research achievements into production technology was the intermediate testing problem, and they suggested that we should stress the resolution of this problem. Without undergoing intermediate testing, it is difficult to industrialize and

advanced scientific and technological research achievements and apply them to commodity production. However, intermediate trials involve the problems of place, methods and funds, as well as the problem of risk. The risk in intermediate testing should be jointly borne by the scientific and technological research departments and the enterprises, and social insurance organs should also provide necessary support.

4. On establishing self-impulsion mechanisms and restraint mechanisms which encourage the technological transformation of enterprises.

Technological transformation is the road to rebirth for old enterprises. Everybody recognizes that this is true. Why then is technological transformation work not going ahead and why is it often occurring that, under the pretext of technological transformation, there is new construction and expansion being carried out? One of the problems is that the old enterprises have not yet widely established self-impulsion and restraint mechanisms. Thus, starting by resolving the problem of mechanisms and motivating the enthusiasm of enterprise operators and the broad masses of staff and workers is a basic measure in achieving continual transformation and the gradual raising of the technological level. On how to resolve the mechanism problem, the participating comrades held: First, it is necessary to begin by perfecting the enterprise contracted-operation responsibility system, by including technological transformation contents in the contract system and setting down, at the time the contract is arranged, requirements in terms of input, targets and measures for technological transformation and, subsequent to strict scientific verification, quantifying these requirements. A synchronism should be maintained between the enterprise contract periods and technological transformation periods, so that the contractors are both the implementers of technological transformation and the beneficiaries of the technological transformation. Second, the degree of completion of technological transformation should be taken as a major component in assessing the achievements of enterprise operators, and should be linked to income distribution. During the contract period, if the technological transformation tasks are really completed well, good rewards should be given and the contract should be immediately paid up. If the technological transformation tasks are not completed, they should be fined and an appropriate amount should be deducted from the contract income. Third, a mechanism by which technological transformation funds are reproduced should be established. Under the precondition of appropriately raising the comprehensive depreciation rates, the depreciation funds should become a major funds source for technological transformation. Also, a certain proportion of retained enterprise profits should be set aside as technological transformation funds. The other half of the funds can come from bank credit. Fourth, it is necessary to establish a technological transformation leadership system where, under the leadership of the factory manager (director), the deputy manager (director) for the technology of the enterprise takes direct responsibility, while the chief

engineer undertakes specific command of the tasks. Thereby, on the basis of unified rights, responsibilities and interests, there will be clear division of work and mutual coordination, and this will ensure that technological transformation and regular daily work can be carried out systematically.

Light Industrial Product Output, Aug 91

HK1909100591 Beijing CEI Database in English
19 Sep 91

[Text] Beijing (CEI)—Following is a list of the output of light industrial products in August 1991, released by the State Statistical Bureau:

Item	Unit	1-8/91	8/91	8/90
Bicycle	10,000s	2415.71	318.89	258.36
Sewing machine	10,000s	488.45	62.54	55.27
Watch	10,000	5095.70	623.80	668.60
TV set	10,000s	1680.23	196.10	205.22
Color TV	10,000s	756.05	89.16	89.20
Video recorder	10,000s	9.07	2.44	0.01
Radio	10,000s	1114.41	115.00	162.90
Tape recorder	10,000s	1985.69	209.46	289.10
Washing machine	10,000s	467.89	47.77	48.55
Camera	10,000s	302.20	49.93	11.33
Fan	10,000s	4860.90	368.89	306.36
Refrigerator	10,000s	334.79	48.01	44.77
Sugar	10,000t	427.32	0.01	0.33
Salt	10,000t	1539.30	165.90	153.50
Cigarette	10,000c	2086.80	281.80	263.80
Beer	10,000t	609.00	106.87	87.21
Liquor	10,000t	304.87	25.87	25.51
Canned product	10,000t	89.04	13.28	12.88
Feed	10,000t	1639.43	207.20	178.85
Machine-made paper and kraft	10,000t	823.03	111.77	95.99
newsprint	10,000t	28.43	3.83	2.58
anastatic printing paper	10,000t	37.38	4.98	4.82
Synthetic detergent	10,000t	101.37	12.57	14.49
Daily fine aluminium products	t	54106	5811	5022
Plastic product	10,000t	235.34	28.47	24.19
farming film	10,000t	26.46	2.25	1.80
Bulb	100mpc	18.35	2.27	1.94

Notes: m.m.—million meter, c.m.—cubic meter, pcs—piece, c—cases, t—ton, s—set

AGRICULTURE

Trends in Development of Cotton Production

91CE0706A Beijing ZHONGGUO NONGCUN JINGJI
[CHINA'S RURAL ECONOMY] in Chinese No 7,
21 Jul 91 pp 51-53, 58

[Article by Wang Qianzhong (3769 0467 1813), Ceng Xianggang (2582 4382 0342), and Han Xiangling (7281 3276 3781): "Stable Supply and Demand for Cotton"]

[Excerpt] [passage omitted] China's Cotton Demand and Production Outlook

1. Projected Demand for Cotton on Domestic and Foreign Markets

In projecting the trends in China's cotton consumption, including the demand for cotton between now and the year 2000, we must consider these major factors:

A) The impact of a growing population and rising incomes on cotton demand. It has been estimated that China's population will reach 1.28 billion, even 1.3 billion, by 2000. To increase per capita cotton consumption by one kilogram, we need an additional 1.2 million tons nationwide. According to analyses by the International Cotton Advisory Committee, with every 1 percent increase in the GNP, the per capita fiber demand will go up between 0.5 and 0.6 percent correspondingly on a global basis and, in the case of developing nations, between 0.7 and 0.8 percent. According to a study by the Food and Agricultural Organization of the United Nations on the relationship between fiber consumption and per capita GNP in 23 countries, when per capita GNP is less than \$1,000, textile consumption (including clothing, domestic textiles, and industrial textiles) goes up one kilogram for every \$100 increase in per capita GNP. By the year 2000, it has been estimated, China's per capita GNP will reach \$800. Assuming that the domestic textile market keeps pace with social purchasing power, domestic textile demand will reach 8 million tons or so and per capita fiber consumption will be 6.5 kilograms, equivalent to the average consumption level in the world today. If we make projections using the current percentage of textile fiber raw materials that consists of cotton fibers, domestic raw cotton consumption in China will be 4.8 million tons or so.

B) The development of the textile industry and the demand of foreign trade. Raw materials in the textile industry may grow 3.3 percent or so annually. According to projections by experts in the textile sector, textile exports will reach \$20 billion by the year 2000, double that today. Based on this projection, the cotton consumption of the textile export sector will grow significantly.

Now let us analyze the markets of raw cotton exports. Assuming an adequate raw cotton supply of guaranteed quantity at home, it is possible to export between 600,000 and 1 million tons of raw cotton a year. Given the cotton production and sales situation in the world, cotton fibers may account for a declining share of textile

fibers between now and the year 2000. In absolute terms, however, the demand for cotton fibers will grow year after year. Estimates are that international cotton trade will exceed 5 million tons. Among China's neighbors, the principal cotton-importing nations and regions are Japan, South Korea, Hong Kong, and countries in Southeast Asia. Along with Eastern Europe, these countries and regions import about 3 million tons of cotton. If we look at the trend in raw cotton exports in recent years, we are very hopeful that we can capture about one-third of the markets in those places. As cotton prices are expected to rise appreciably on the world market, it is a profitable proposition to push for more raw cotton exports as appropriate provided that cotton production also increases to satisfy the basic domestic demand.

C) The increase in the consumption of wadding cotton and other nontextile cotton. The longstanding cotton consumption habits of China's rural and urban populations cannot be changed in the near future. This is particularly true in the countryside. The demand for wadding cotton in townships and noncotton-producing rural areas will increase in the future. Cotton-producing areas will keep a smaller amount of cotton for personal use while sending more to meet the demand of township textile enterprises. Also slated to increase is nontextile medical cotton consumption. Overall, however, the demand for nontextile cotton will stabilize at about 650,000 tons.

Based on the above analysis and putting together the projections by experts in the field as well as agriculture and various textile industries, total cotton output will hit 5 million tons in 1995, of which 200,000 tons will be exported and 4 million tons will be consumed by the textile industry, the remainder being wadding cotton, cotton retained for personal use, other industrial cotton, and stocks. By the year 2000, total raw cotton output is projected to be 6 million tons, of which 600,000 tons will be exported and 4.4 million tons will be consumed by the textile industry. China's projected raw cotton consumption structure is presented in Table 1.

2. Possible Levels of Per Unit Area Cotton Yield

After a string of annual gains since 1983, China's per unit area cotton yield has exceeded 50 kilograms per acre on average (based on the usual mu area). The average between 1983 and 1987 was 55 kilograms. Projections are that the per unit area cotton yield in the next few years (before 1995) will fluctuate between 50 and 60 kilograms, reaching 65 kilograms or so by 2000.

To raise per unit area yield in the future, we must rely on scientific and technical progress. In the near future, however, major breakthroughs in the development of cotton varieties are unlikely. Instead we should concentrate on the development, selection, and popularization of new cotton varieties. Since the launching of key scientific projects during the Sixth Five-Year Plan, the quality and drought-resistance of new varieties have improved significantly. However, judging from the yields of new varieties that took part in various regional

trials in recent years, few varieties produce significantly higher yields than those now being popularized. Most of the trial varieties are better in quality. In terms of yield, though, they equal or slightly outdo the high-yield varieties. Nationwide new varieties will be introduced once or twice before 2000 in tandem with the popularization of other related high-quality high-yield technical measures. Inputs like chemical fertilizers, pesticides, and plastic film should be increased properly and their supply should be ensured. Accordingly it is possible to increase per unit area yield by 20 percent. However, we must also take into consideration the impact of climate on cotton yields. The figure of 20 percent is a long-term development goal. There should be room to make adjustments.

Table 1 Projected Raw Cotton Consumption Pattern for China in 1995, 2000 (10,000 tons)

Year	1985	2000
Cotton for Textile Use	400.0	440.0
Other Industrial-use Cotton	12.0	10.0
Cotton Retained by Farmers	18.0	15.0
Exports	20.0	60.0
Additional Stocks	20.0	40.0
Waste	6.0	5.0
Wadding Cotton	34.0	30.0
Total	500.0	600.0

Note: Small quantities of needed raw cotton imports and other raw cotton imported by export-oriented enterprises in certain coastal areas that "begin and end their production process overseas" are excluded.

3. Potential for Increasing Cotton Area

The area under cotton cultivation averaged 87.50 million mu during the Sixth Five-Year Plan (1981-1985), peaking at more than 100 million mu in 1984. Between 1986 and 1988, the average dipped below 80 million mu, which basically explains why cotton output dropped so much that supply overtook demand. To meet the projected raw cotton demand, the area under cotton cultivation must not be less than 95 million mu, based on the possible per unit area cotton yield given above, and every effort must be made to reach 100 million mu.

According to studies, it is possible to stabilize the area of cotton fields nationwide at 90 million mu or slightly higher. In the eight provinces (municipalities) that constitute the cotton belt in the south, the area under cotton cultivation year round is about 32 million mu, sinking to a low of 26.20 million mu in 1985. The most we can hope for in the next few years will be 28 million mu. In the Xinjiang cotton belt, 5.34 million mu were under cotton cultivation in 1987, up from 3.82 million in 1985. The area of cotton fields there is projected to reach 8 million mu by 2000. In the northern cotton belt comprising the two provinces of Shaanxi and Gansu, almost 7 million mu are planted with cotton year round. In the past few years, however, the area of cotton fields has shrunk drastically, hitting a low of 2.37 million mu in 1987. In

the future everything must be done to increase the area to 5 million mu. In 1987, the three provinces in the Huang-Huai-Hai plain, namely Hebei, Shandong, and Henan, accounted for 57 percent of all cotton fields in the nation. This is a cotton belt with considerable flexibility and potential. But even here the competition between the two crops—wheat and cotton—for land has sharpened as population increases and national demand for grain expands. If too much land is devoted to cotton cultivation, it will inevitably affect the increase of grain production. By developing wheat-cotton two crop cultivation and growing cotton in saline-alkali soil, it is possible to increase the area under cotton cultivation to 10 million mu, up from 41.46 million in 1987, along with an increase in grain output.

The distribution of cotton growing areas in China has shifted strategically in the last decade. The first shift was from south to north. In the past the ratio of cotton output between the two was 7:3; now it is 3:7. The second shift was the emergence of the three provinces of Hebei, Shandong, and Henan as the center of cotton production, accounting for almost 60 percent of the nation's total cotton output. The third shift took place within those three provinces, where cotton production is now concentrated in the northwest of Shandong, around Heilonggang, and in the southeast of Henan. Between them, these areas currently account for more than 70 percent of the three provinces' combined cotton output, which makes them the nation's sixth largest cotton-producing area. In our drive to expand the nation's area of cotton fields by 10 million to 15 million mu in the medium term, up from the current 80 million mu, at the same time ensuring that grain output increases in tandem and that the increase in cotton acreage does not lead to a grain shortage, we should concentrate on bringing more land under cotton cultivation in the northern cotton belt, particularly northwestern Shandong, Heilonggang, and southeastern Henan, as well as the southern Xinjiang cotton belt. Cotton-growing is quite profitable in those areas, with their abundant saline-alkali soil and a correspondingly small volume of grain output. One approach is to make the most of saline-alkali soil and arid infertile land by planting them with houzhimian. Another approach is to develop two-crop cultivation combining wheat with cotton in the Huang-Huai-Hai plain, growing the Huaipinghuang wheat in the main. That way grain ensures cotton and vice versa.

These are the principles of the distribution of cotton fields in the near term. Southern cotton belt: stabilize and increase the area of cotton fields in the plains in the middle and lower reaches of the Chang Jiang; open up new cotton fields in the river's upper reaches and in arid hilly land to the south of the river. Northern cotton belt: work hard to develop the cotton-growing area in the Huang-Huai-Hai plain; accelerate the development of the Xinjiang cotton belt; stabilize the area of cotton fields in southern Gansu and the central Shaanxi plain; bring arid land in the north under cotton cultivation as appropriate.

Trends in Balancing Cotton Production With Sales; Macroeconomic Policy

An analysis of the characteristics of China's cotton production and sales as well as the development trends yields the following conclusions. The demand for raw cotton on both the domestic and world markets will be enormous in the future. Because of limited arable land and severe food shortages that will be around for a long time, it will be impossible to increase the land under cotton cultivation significantly. Substantial increases in per unit area yields also appear to be out of the question in the near term. Thus demand will outstrip supply. The resultant gap will be a long-term problem.

Assuming a growth rate of 2.5 percent, China's raw cotton output will reach 5 million tons in 1995 and 6 million tons in 2000. The competition between domestic sales and exports will remain intense. If per capita fabric consumption continues to grow at 3 percent, rising from the current 12 meters to 16 meters, at the same time factoring in population growth, there will be severe constraints on raw cotton exports. If we try to meet the demand of the export sector, exporting a total of 2 million tons in cotton textiles and raw cotton, then the level of per capita fabric consumption will stay where it is now, which is bound to militate against the improvement of the people's living standards. It is the export volume, therefore, that will make or break the balance between production and sales.

If cotton output increases 3 percent annually to reach 6.5 million tons by 2000, there will be less competition at that point between domestic sales and exporting. Export targets will be met while domestically per capita consumption will also rise at a rate close to 3 percent. For cotton output to increase to that level, however, the area under cotton cultivation must be further expanded to more than 100 million mu. This requires a number of extraordinary measures, such as importing a proper amount of grain to reduce the grain production tasks of the major cotton-producing areas, boosting state investment, and developing new cotton areas. Otherwise the goal cannot be realized.

To tackle the principal conflicts between cotton output and sales today and in the foreseeable future, we must strategically adjust the mix of fiber resources of the textile industry, the balance between domestic sales and exports, and the structure of cotton output and varieties. Adhere to the principles of supporting one another, safeguarding the priorities, and grasping the main direction. Policies: Coordinate production, supply, and marketing closely; plan comprehensively; take everything into consideration; and the central goal is to make the cotton industry more profitable. We must open up domestic and foreign markets, and combine domestic sales with exports, with emphasis on the former. We must raise per unit area yields and increase the area under cotton cultivation properly, improve quality, and rationalize distribution to ensure steady gains in cotton output, both quantitative and qualitative. We must work

to achieve a basic balance between production and sales, and produce what the market needs.

1) Adjust the mix of textile raw materials. The ratio between cotton fibers and chemical fibers in the current mix of textile fibers worldwide is roughly 1:1. In China, cotton still accounts for over 50 percent, chemical fibers, about 30 percent, and flax, wool, and other fibers, 15 percent or so. Even as we try to boost raw cotton output, we should redouble our effort to develop chemical fibers to replace or cut back on the consumption of cotton fibers so that the two would gradually account for an equal share. The various components of the mix of raw materials—cotton, chemical fibers, wool, and flax—should be complementary. Fully exploit China's ample resources and expedite the development of the flax industry and wool industry. In different provinces (prefectures) develop regional resource advantages. The textile industry should be properly distributed across the nation.

2) Have our feet firmly planted in the domestic market and correctly handle the relations between the domestic and the foreign markets. China's population may climb to 1.3 billion by the end of the century, with the rural population far exceeding the township population. We can only plant our feet firmly in the domestic market and make the rural market and domestically-oriented economy our priority and starting point. Only then can we proceed to integrate the domestic market with foreign trade, the township market with the rural market, the domestically oriented textile industry with the export-oriented enterprise. We must plan comprehensively, taking everything into consideration, and develop in a coordinated way. Between the exporting of raw cotton and that of textile goods, our emphasis should be on the latter. Improve the quality and design of textile products and increase the rate of earning foreign exchange. In times of raw cotton shortages, securing the necessary raw materials for the textile export industry should be a priority.

3) Adjust the distribution of cotton production rationally. On the one hand, pay attention to the traditional strengths of well-established cotton-growing areas and their leading position in China's cotton production. On the other hand, open up new cotton-growing areas energetically. But the priority should always be the revival and expansion of old cotton-growing areas because it takes a lot of investment to develop new areas, while their pay-offs are slow in coming. So it is inadvisable to neglect the essential to pursue the marginal. When it comes to the mix of varieties, we must integrate production and sales, with the latter determining the former, and settle on a reasonable mix. The starting point should be to meet the demand of the domestic textile industry for a range of raw cotton varieties, including some specially needed by the industry. When prices on the international market are favorable and when the demand of the domestic textile industry for the various types of raw cotton, including certain special varieties, has been met, we may import a small quantity so as to

use imports to promote exports. The distribution of varieties must be considered in conjunction with the boundaries of administrative divisions. In line with the distribution of the textile industry and to meet export needs, irrational commodity circulation should be curtailed.

4) Reform the cotton management system and intensify coordination between cotton production, supply, and marketing. Reform the cotton circulation system step by step; and reform the cotton variety management system so that over time production, processing, marketing, and sales are integrated. In the course of structural reform, we must act boldly, heed what has already been accomplished, correctly handle the economic interests of various sectors, move ahead firmly but cautiously, and be careful to combine the top with the bottom so as to unleash the initiative of those at the center as well as those at the local level.

Benefits, Problems of New Wholesale Markets

92CE0011A Chongqing TIGAI XINXI [SYSTEM REFORM NEWS] in Chinese No 14, 20 Jul 91 pp 28-29

[Article: "A Good Beginning for China's Wholesale Grain Market"]

[Text] In October 1990 China's Zhengzhou Wholesale Grain Market was born. This was a bold experiment that introduced certain rules of the futures market integrated with China's specific circumstances, an exploration attempted to replace administrative measures with economic mechanisms, and a new approach to solve the difficulties of buying and selling agricultural and sideline products in recent years. Later, with the approval of the Ministry of Commerce, wholesale rice and corn markets at the provincial level have been established in Wuhu, Anhui Province, Jiujiang, Jiangxi Province, Wuhan, Hubei Province, and Changchun, Jilin Province.

From 15-20 March, during the fourth week of centralized transactions, total transactions were 8,740 tons. It is particularly worth mentioning that during this transaction week, transactions were no longer confined to wholesale operations in the spot market. The first forward contract was concluded, thus striking the initial step towards the transition from spot market wholesale transactions to forward market transactions. The seller in this contract was the Grain and Edible Oil Company of Hua County, Henan Province, and the buyer was the Lengshuitan Flour Mill of Hunan Province. The contracted volume of purchases was 1,000 tons of third-grade white wheat priced at 0.86 yuan per kg to be delivered between September and December, and payment was to be made in the month of delivery. In accordance with the rules of forward transactions, financial procedures are ensured, and contracts have strict legal and economic restrictions.

Wholesale markets such as the Zhengzhou Market that were created on the basis of introducing a forward market mechanism, and developing conventional spot

transactions, are different from trade centers, traditional "wholesale trade," and forward contracts. The wholesale grain market is a nonprofit, service-type market. The wholesale market itself is not involved in operations. It facilitates transactions through services. It is sponsored by the government. Members of the market are organized to set rules and manage by themselves, and to carry out orderly competitive transactions based on market rules. Transactions are regulated and controlled at the macro-level by the state, are bound to market rules and regulations, and there is fair competition. It is a concrete form of combining planned economy with market mechanisms. The Zhengzhou Market practices several forms of transactions based on the situation of the transaction. According to member communication and information on demand, it has tried to centralize weekly transaction activities, and the 15th to the 20th of each month is the market transaction period. It also organizes members to conduct transactions on behalf of nonmembers. Some provincial price-negotiated food and edible oil companies have set up agency divisions, and engage in agency business to meet the needs of nonmembers for low volume transactions. The market helps to bring together the members of other provinces to facilitate their transactions, i.e. provides information on requests for buying and selling to all members of the market, and enables market transactions to expand in volume.

After the Zhengzhou Market was set up, its service functions have been strengthened. First, it provides accommodation services for members of other provinces. Second, it provides information services, and transmits rapidly and accurately to members past price data and spot transaction prices at various places. Third, it provides storage and shipping services, and handles railway transportation procedures. The standardized and fine services of the Zhengzhou Market have increased its attraction. Recently, provincial flour processing mills, feed factories, and farms have requested joining the market organization.

Since this wholesale grain market opened, grain and edible oil transactions are increasingly brisk, and transaction mechanism constantly improving. It has begun to regulate supply and demand, stabilize grain prices, protect the interests of producers and consumers, and plays the following roles:

First, it has centralized and rationalized transactions. Transactions are concluded within the market, so the cost of transactions has been reduced. At present, most provincial price-negotiated grain in China is transacted through the fragmented one-to-one negotiations between the purchasing and marketing agents, who have to travel all over the place to find each other. Such transactions lack competitiveness, and are characterized by blindness and enormous waste. The grain department in Zhaoqing District, Guangdong Province, for instance, incurs 14 million yuan of purchasing expenses each year. Establishing wholesale grain markets provides a stable, standardized and information-centralized place for participants. It has changed the situation where purchasing and

marketing agents had to travel all over the place, thus saving expenses and improving efficiency.

Second, the wholesale grain market has set up a surety system, thus eliminating the concerns of both parties about losses that may result from breaching the contract by either party. This system was designed to control the arrearage that are phenomenal in the circulation of grain, and a measure that could be adopted for the circulation of other commodities.

Third, the press reports the price of wholesale grain transactions to the whole country, thus serving a guiding function for grain trade industries, primary grain markets and peasants, and is conducive to the formation of a unified national grain market.

Fourth, the wholesale grain market combines state management with market self-regulation, and is conducive to the establishment of a sound transaction order based on rules for business. All wholesale grain markets have set up a set of relatively complete market rules and regulations so as to ensure the smooth proceeding of transactions.

However, since the grain wholesale market opened, it has encountered some policy and structural problems, and has been influenced by force of habit. Problems involve various aspects such as finance, credit, transportation, price, and the relations between government and enterprises, and can hardly be solved through the efforts of the market itself. Sales commission and departmental interests, for instance, affect incentives for entering the market. The volume of market transactions in the total grain transactions is still rather small. Due to various constraints, some enterprises found it difficult to enter the market. The consignment and agency mechanisms have not been established yet. Nonmembers cannot participate in transactions. Transportation capacity does not match the volume of market transactions, making it difficult to deliver the transacted grain to the user in time as stipulated in the contract. The sources and uses of sureties should also be coordinated with existing financial policy.

In summary, achievements that have been made since the opening of wholesale grain markets should be fully recognized, and is a good beginning. The first step is a success, and has an influence both at home and abroad. At the same time, we should have enough courage to address the difficulties related to this experimental task. Whenever difficulties and problems arise, there should be multi-coordination to seriously solve, and guide this reform toward healthy development. Moreover, a forward transaction system with Chinese characteristics needs to be studied. Based on accumulated experience, the transition to the forward market should be pursued actively and in a timely manner. There is no specific time, and the key lies in whether the conditions for forward transactions are mature or not.

Cotton Purchases Increased To Stabilize Supply*HK1410051091 Beijing CHINA DAILY in English
14 Oct 91 p 1*

[By staff reporter Xie Liangjun: "State Buys Cotton To Stabilize Markets"]

[Text] In an effort to stabilize cotton supplies to the textile industry, the Ministry of Commerce is stepping up its purchases from farmers.

The cotton harvest this year was delayed and reduced by the floods that struck most of the cotton-producing provinces.

Farmers were holding out for higher prices, knowing that the market demands this year would be squeezed even tighter than usual by the later, smaller harvest.

But with the state-run textile industry depending on the supplies, officials issued a directive to prevent other purchasers from buying up all the cotton. That put pressure on the farmers to sell to the government.

As of last week, China's commercial agencies had purchased more than half a million tons of cotton from Chinese farmers, according to the latest statistics from the Ministry of Commerce.

That is only 12 percent of the State's target, statistics show. And it's just half the amount that had been purchased by this time last year, said Su Haiyan, a Ministry official in charge of cotton procurement.

Su said the undersupply is due to this summer's heavy floods in East China and to strict quality requirements made by the State Council.

Floods in China's major cotton-producing provinces slowed the growth of cotton crops and forced farmers to postpone their harvesting for about 15 days.

Chinese commercial agencies usually buy cotton from farmers between September and December, but about 50 percent its procured in October.

Rural commercial departments have paid more attention to cotton quality this year, causing many farmers to take a wait-and-see approach in hopes of getting higher prices for high-quality crops, Su noted.

It will still be difficult to fulfill this year's target for cotton purchases, as the government has in the past few years, but last year's amount seems attainable, Su said.

In 1990 government agencies bought about 4 million tons of cotton from the farmers.

Unexpectedly severe floods shattered the dream of government planners to continually narrow the gap between cotton supply and demand in China.

However, agricultural officials still expect this year's cotton harvest will amount to as much as last year—4.5 million tons—because of the favourable weather in recent months and tremendous efforts by farmers to replant in the flood-receded areas.

Floods and other natural disasters this year devastated a total of 666,700 hectares of cotton farmland in Jiangsu, Anhui, Hubei and southern Henan provinces.

Tougher controls on the cotton market have so far prevented panic purchasing and drastic price increases in most areas, Su noted. But those problems could still occur if the government loosens its control.

The ministries of Commerce, Textile Industry and Agriculture, the State Planning Commission, the State Price Bureau and the State Technical Supervision Bureau have dispatched their own teams to major cotton-producing regions to monitor and inspect purchasing, the official said.

Experts Deem High-Altitude Cotton-Growing Successful*OW1910213091 Beijing XINHUA in English
1502 GMT 19 Oct 91*

[Text] Hohhot, October 19 (XINHUA)—A good harvest was reaped from the first ever planting of some 245 mu (about 16 ha) of cotton in the grassland and desert in northern China's Inner Mongolia Autonomous Region.

This is also the first time for China to plant cotton on a large scale in such a northerly and high-altitude region.

The herdsmen and farmers in the region depended entirely on raising animals and planting grain, beet, and oil crops in the past.

But because it is more efficient to plant cotton than grain crops in the region, the regional government invited experts from Hubei Province to help with the planting of a cotton crop last year.

The experts experimented with a total area of 6,000 mu farmland in five cities and 15 counties. The results indicate that the fine varieties of cotton may grow well in the region, which has more than 20 million mu of land available for cotton planting.

At the beginning of this month, the region held a cotton producers meeting for the first time.

Statistics Show Rise in Beef, Mutton, Milk Output*OW2310045491 Beijing XINHUA in English
0328 GMT 23 Oct 91*

[Text] Beijing, October 23 (XINHUA)—China's animal husbandry industry has shown remarkable improvement since the beginning of this year.

According to statistics for 28 provinces, autonomous regions and municipalities, in the first nine months of this year the total output of meat, beef and mutton reached 16.55 million tons, nine percent or 1.36 million tons more than the same period last year.

During the period, the output of milk exceeded 2.92 million tons; the output of eggs was 7.95 million tons, 7.7 percent and 4.5 percent increases, respectively. The output of wool stood at 163,000 tons, up 4.4 percent.

The State Statistics Bureau reported that in the first eight months of this year, the state purchased a total of 71.52 million head of pigs, a 7.8 percent increase over the same months of 1990. Meanwhile, 66.46 million head of pigs and 530,000 tons of eggs were sold on the domestic market.

Heilongjiang Achieves Rapid Agricultural Development

OW1910052491 Beijing XINHUA in English
0155 GMT 19 Oct 91

[Text] Harbin, October 19 (XINHUA)—China's northeast Heilongjiang Province has scored big achievements in the comprehensive development of farming, forestry and animal husbandry.

According to the Provincial Bureau of Animal Husbandry, it now supplies more than three million live pigs to the market each year, and production of other types of meat and eggs has also increased greatly in recent years.

Heilongjiang, with vast territory and rich resources of grass and timber, has made strenuous efforts to develop grain production as the mainstay in rural areas, supported by animal husbandry and rural enterprises.

It has expanded its area of rice planting from 206,000 ha to over 866,000 ha this year, reclaimed 200,000 ha of waste land and improved 606,000 ha of low-yield farmland. At the same time, new agricultural technology has been introduced.

The total grain production last year was a record 23.1 billion kg, and the province is expecting another bumper harvest despite serious flooding this summer.

The provincial government encourages farmers to raise more poultry. Now it has 112,000 poultry-raising households and more than 1,000 poultry farms run by townships or villages.

The number of pigs in the province reached 7.5 million head during the first six months of this year, 750,000 more than in the same period of last year. The number of milk cows was 585,000, some 15.8 percent higher than last year's figure.

The annual output of milk has reached one million tons, and that of dairy products, 120,000 tons, making Heilongjiang the biggest producer in the country.

Last year the production value of rural enterprises was 16 billion yuan (about three billion U.S. dollars).

The 30 sugar plants in the province processed 6.4 million tons of beet and produced more than 700,000 tons of beet sugar last year. Heilongjiang supplies the whole of north China with sugar, and is the biggest producer of flax in the country.

The per capita income in the rural areas was 670 yuan last year, 50 percent more than in 1986.

Afforestation Efforts Improve Ecology

OW1610084191 Beijing XINHUA Domestic Service
in Chinese 0228 GMT 15 Oct 91

[By reporter Zhang Jianjun (1728 1696 6511) and correspondent Feng Jiaping (1409 0502 1627)]

[Text] Beijing, 15 Oct (XINHUA)—Just as "World Food Day" arrived with this year's theme of "Afforest To Benefit Mankind," our reporters learned from the Ministry of Forestry that our country has achieved gratifying success in its greening projects, which seek to improve the ecology. A number of green walls built to provide shelter from wind and sand are taking shape, and seas of man-made forests now cover the divine land.

After more than 10 years since it was started in 1979, the systematic "Sanbei" shelterbelt project has built 138 million mu of man-made forests, including over 26 million mu of commercial forests which produce over 8 million cubic meters of logs annually and 20 million mu of economic forests which produce 2.5 billion kg of fruits every year. Previously naked loess belts are now dyed with patches of green, and winds and sands encroaching upon the capital are now halted by waves of forests. Our great success in building the "Sanbei" shelterbelt has won high acclamation in the world. People regard the "Sanbei" shelterbelt as the best in world ecology engineering, and the Sanbei Shelterbelt Construction Bureau under the Ministry of Forestry, which oversees the project, was given the "Award for World Environmental Protection" by relevant international organizations.

When a green wall was snaking horizontally across the north, another one was expanding longitudinally in or along our 10,000 li of coastal areas and territorial seas. Shelterbelt projects along coastal areas, which were started not long after the founding of New China, have built over 10,000 km of backbone coastal forest belts which stretch over 11 provinces. Over 100 million mu of coastal areas now contain forests.

The world's largest shelterbelt system for farmland was built under our country's greening project for plains: 9.6 billion trees planted on the "four sides" [by the sides of houses, villages, roads, and waters] and forests interspersed with grain crops over 66 million mu of land form a magnificent view of flatland forests on the land of China. The 200 million mu of waste shoals have become green and luxuriant, and 460 million mu of cultivated land interweaves with networks of forests in the whole country. We have steadily increased our grain and cotton output as we gradually reduce disasters caused by wind, sand, drought, flood, and alkali.

Another example of our people's magnificent feat in improving the ecological environment is the systematic shelterbelt project on the middle and upper reaches of the Chang Jiang, which was started in 1989. Within a short period of two years, 180 million people from 145 counties along the Chang Jiang helped carry out the first stage of the project, afforested an area of 20 million mu, and completed one-fifth of the tasks required of that

stage. When the first stage of the project is completed, 40 percent of the land over there will be covered with forests.

The broad masses of people regard efforts to harness deserts and land which had undergone desertification as a major program of fundamental importance that will improve conditions for survival and benefit future generations. They have declared war against and attempted to conquer deserts. After more than 40 years of hard work, 150 million mu of land in the country has now been preserved by afforestation efforts aiming to stop desertification, 10 percent of desert land is free from desertification, and over 20 million mu farmland has been opened up after harnessing deserts.

These key ecology projects have played a great role in fundamentally improving our country's ecological environment and promoting economic development.

'Three Norths' Forest Achieves Natural Success

*OW1410085391 Beijing XINHUA in English
0806 GMT 14 Oct 91*

[Text] Hohhot, October 12 (XINHUA)—The "three norths" forest shelter belt, the largest afforestation

project in China, has achieved great natural, economic and social success, according to an official from the Ministry of Forestry.

After 11 years of construction, some 7.42 million hectares, or 80 percent of the total forests China has planted in the north, northeast and northwest are well preserved.

The shelter belt program which began in 1978 and is scheduled to be completed by the middle of the next century, will protect 551 counties in 13 provinces, autonomous regions and municipalities from northeast through north to northwest China, covering a total area of more than four million sq km.

The official said the existing shelter belt project has protected 11 million ha of farmland which were once adversely affected by severe wind and sand storms.

The shelter belt has helped to increase agricultural output by 10-30 percent, and over nine million ha of wastelands have been reclaimed, while serious soil erosion has been controlled on over 14 million hectares.

According to the official, the project has accelerated the speed, enlarged the scale and improved the efficiency of China's afforestation effort.

Prostitution Crackdown Will Improve Investment

*HK2809040891 Beijing ZHONGGUO XINWEN SHE
in English 1440 GMT 26 Sep 91*

[Text] Fuzhou, September 26 (CNS)—The Vice Minister of Public Security, Mr. Yu Lei, said that the present crackdown on prostitution in China is aimed at improving the social order of hotels and public places of entertainment and will in no way hamper foreign investment.

The Vice Minister made these remarks in a speech at a forum on the crackdown on prostitution which was held in Fuzhou a few days ago.

Mr. Yu pointed out that China did not attract foreign investment using the allure of disgusting and decadent attractions but of a stable social environment and preferential investment conditions.

China took a series of actions to crack down on prostitution in June, July and August this year, arresting some 49,000 persons involved in this vice, among them 234 persons who had forced women into prostitution, 2,117 who lured or accommodated women for prostitution, 18,095 women offering themselves for prostitution, 25,430 frequenters of prostitutes and 1,206 gangs with 6,551 members involved in prostitution.

Generals Fu Kuiqing, Shi Yuxiao Profiled 92P30019A

[Editorial Report] Hong Kong KUANG CHIAO CHING [WIDE ANGLE] in Chinese discloses on 16 September 1991, pages 36-38 that Hong Kong television and press reports on 31 August and 1 September incorrectly identified Lieutenant General Fu Kuiqing [0265 1145 3237] as the Nanjing MR political commissar when in fact he had been replaced by Shi Yuxiao [0670 3768 1321] in May 1990. Without elaborating on the possible implications of this error, the article proceeds with Fu's impressions of the present situation in the Chinese military.

1. The Chinese Communists are extremely nervous and alarmed by major changes in the Soviet Union and are sternly guarding against anyone seizing the opportunity to stir up things.

2. The PLA has strengthened its patrol around major airports and along the northwest and northeast borders of China thus indicating that the CPC is focusing on border area security and national unity.

3. The party is strictly controlling the PLA and strictly guarding against infiltration by hostile forces and against "peaceful evolution."

The article furnishes the following biographical data on 71 year-old Fu Kuiqing.

November 1920: Born in Yingshan County, Anhui Province. (Yingshan is now part of Hubei Province.)

October 1937: Joins the Chinese Communist anti-Japanese resistance effort as a communications person in the underground for the Yingshan County Communist Party.

August 1938: Joins the CPC. He subsequently takes responsibility for organizational work in the Yingshan County Jinpu Area Committee.

August 1939: Assumes the posts of chief of civilian propaganda and organizational work in the political department of the New Fourth Army's Jiangbei guerilla corps, and then political director of the 2nd Regiment 1st Company. He then holds in succession the posts of organizational section chief of the New Fourth Army 2nd Division 6th Brigade 18th Regiment Political Department, organizational division chief of the Huainan Jinpu Railroad West Joint Defense Headquarters [anti-Japanese democratic base area] Political Department, organizational division deputy chief, and then chief of the 2nd Division 5th Brigade Political Department.

1947-1949: Assumes the posts of deputy political commissar of the Huadong PLA's 7th Zongdui 20th Division 58th Regiment, and political committee member of the PLA 3rd Field Army 25th Army 74th Division 220th Regiment. He performs outstandingly in the Sino-Soviet, Laiwu, Zhunhai, and Dujiang Campaigns.

1950-1953: Holds the post of deputy director, and then director of the 25th Army 74th Division Political Department, and party affairs division chief of the Huadong MR Political Department Organizational Office.

1953: Crosses the Yalu River, joining the Korean War as deputy director of the organizational office of the political department of the 9th Group Army.

1953-1964: Serves as political commissar and political department director of the 23rd Army's 69th Division.

1955: Receives the rank of Senior Colonel.

1964-1975: Acts as director of the political department, then deputy political commissar, then political commissar of the Chinese Communist 23rd Army.

1971-1975: Serves as party secretary of the Heilongjiang Provincial Committee.

1975-1980: Serves concurrently as deputy political commissar and political department director of the Shenyang MR.

1981-May 1985: Assumes the post of political commissar of the Fuzhou MR.

June 1985: Becomes Nanjing MR political commissar.

September 1982-November 1987: Member of the CPC Central Committee.

December 1987: Serves as delegate to the 13th Party Congress.

April 1988: Becomes a member of the National People's Congress Standing Committee.

November 1988: Receives the rank of Lieutenant General.

May 1990: Replaced by Shi Yuxiao as Nanjing MR political commissar.

The article provides the following brief biography of Shi Yuxiao.

1933: Born in Baoji City, Shaanxi Province.

1949: Enters the PLA at age 16. At one point he becomes a member of the propaganda troops of the 1st Field Army. Shi also participates in the Lanzhou and other campaigns.

1953: Joins the Chinese Communist Party. In the same year he sees duty in the Korean War as an assistant in a security section of a certain division of the PLA volunteer army. After returning to China, in succession Shi acts as PLA company political trainer, battalion political instructor, regiment political commissar, and division deputy commissar.

1980: Graduates from the PLA Political Academy. He subsequently holds the posts of division political commissar and then army political commissar.

1985: Becomes Nanjing MR deputy political commissar.

1987: Becomes CPC Central Committee member.

1988: Receives the rank of Lieutenant General.

May 1990: Replaces Fu Kuiqing as Nanjing MR political commissar.

CENTRAL-SOUTH REGION

Haikou Mayor Interviewed

91CM0548A Hong Kong KAIFANG [OPEN] in Chinese
No 55, 15 Jul 91 pp 15-16

[Interview with Haikou Mayor Zeng Haorong (2582 3185 2837) by Ho Pin (0149 7340) in Toronto on 28 June 1991: "Haikou Mayor Zeng Haorong Talks About Hainan—What Is on His Mind While Faraway From Home?"]

[Text] Mr. Zeng Haorong, mayor of Haikou City and leader of the mayors' observation group of the Chinese coastal cities, was interviewed by the writer in Toronto on 28 June. He was asked about Sino-Canadian relations, most-favored-nation treatment, recent developments in Hainan, the whereabouts of Xu Shijie [6079 1102 2638], Liang Xiang [2733 3276], and Lei Yu [7191 1342], and other things. The following is an edited version of the tape-recorded interview.

Growing Numbers of Foreign Investors

[Ho] I have visited Hainan Island many times and interviewed Mr. Li Jinyun [2621 6855 7189], the former mayor.

[Zeng] He is now chairman of the Haikou Municipal People's Congress.

[Ho] Hainan Island's economy was in a depressed state when I visited there in the past. How is the situation now? How has Hainan been affected by the 4 June incident?

[Zeng] It is hard to say. We cannot say that there has been no effect, but in the past few years our main effort has been to improve the basic investment climate, which has never stopped. The situation now is much better than before. It can be said that our investment conditions are basically complete.

[Ho] When I went there a few years ago, not only was there a power shortage, but even the water supply was not guaranteed in the guesthouse.

[Zeng] Water and power are no problem now. There is even more power than needed.

[Ho] When Hainan was first established as a special economic zone, it was mainly mainland provinces and cities that rushed over to set up companies and offices, and there were not many foreign investors.

[Zeng] Now foreign investors are increasing.

[Ho] Mainly in what kind of projects?

[Zeng] In the past they were mainly projects of the tertiary industry, such as hotels, real estate, and so forth. Now they are gradually turning to industrial enterprises, like oil refineries, shoemaking factories, and other processing industries.

Free Entry and Exit Difficult To Implement

[Ho] When I visited Hainan Island in 1988, I was the first to report on Hainan's 30-article special policy. For example, all enterprises in Hainan could do business directly with foreign firms, and the people could enter and leave freely. Later I heard that it was impossible to implement.

[Zeng] Many provisions of the 30 articles have been implemented, though details of some have yet to be worked out.

[Ho] Will it be possible for the people to enter and leave freely, for example?

[Zeng] On the question of free exit, every country has its own provisions, and we can only follow China's unified provisions. On the question of entry, however, foreign businessmen and visitors from abroad can obtain visas upon arrival in Hainan Island and need not go to Chinese consulates to apply for visas beforehand. Hainan Island is the only place in China where entry visas can be obtained this way.

[Ho] What improvements have been made to Hainan Island's transportation conditions? The Haikou airport is very small, and railways and highways are also inadequate.

[Zeng] There is no serious problem in transportation to and from Hong Kong. The situation as a whole has improved a lot since your visit in 1988. We are now conducting a study on building a large airport and an expressway between Haikou and Sanya cities, the eastern route.

[Ho] I heard that public order is bad in Hainan. The underworld, prostitution, and so forth seem to be more serious than in other parts of the country.

[Zeng] No, it is made to sound serious by the newspapers. The problem of the underworld and criminal gangs is not particularly serious. Nevertheless, we have stepped up control, and the present situation cannot be much worse than other places.

The Mayor More Powerful Than Before

[Ho] During the Zhao Ziyang era, local powers were expanded gradually. Since the 4 June incident, it is said that the Li Peng administration has reduced a great deal of the local powers.

[Zeng] It should not be put that way. In the course of reform and opening to the outside world, China is constantly groping its way forward. Some readjustments may become necessary in certain areas, but the policy of reform and opening to the outside world will not change as a whole.

[Ho] Comparing the periods before and after the 4 June incident, has there been any change in the mayor's authority? Is the mayor now subject to greater control by the secretary of the municipal CPC Committee?

[Zeng] No. As far as Haikou is concerned, I think the mayor has more power now than before.

[Ho] The United States is now discussing most-favored-nation treatment. If most-favored-nation treatment is withdrawn, will Haikou be affected?

[Zeng] It certainly will have an impact but not too great because proportionally Hainan's export to the United States is not very much.

[Ho] You were elected mayor last year. You do not seem to have been in Haikou for a long time.

[Zeng] I was transferred from Shanxi to the Hainan Provincial Industry Department, and I came to Haikou last year to serve as the mayor.

[Ho] As mayor, what do you think is the greatest obstacle to Hainan's development?

[Zeng] It is hard to say. There are indeed many difficulties. Both funds and competent people are in short supply. The infrastructure is also inadequate.

[Ho] You just said that the reform and opening to the outside world are continuing. The reform is a restructuring of the system. What is the basic problem in restructuring the economic system?

[Zeng] That is a big question, and it is difficult for me to answer. The reform is progressing. For example, grain prices, housing, and so forth are all being reformed. Hainan has decontrolled all grain prices, allowing them to be regulated by the market.

Comments on Lei Yu, Xu Shijie, and Liang Xiang

[Ho] Lei Yu had a very strong influence and left a very good impression in Hainan. It is said that Hainan's people all want him to go back there.

[Zeng] The ordinary masses have their own views, and that is normal. There is no doubt that Lei Yu did many things for Hainan and not just in the matter of automobiles. His motive was to develop Hainan, and development requires money. Overall, he should be appraised highly.

[Ho] Is it possible for him to go back to Hainan?

[Zeng] Cadre transfers are decided by higher authorities. According to my analysis, it is unlikely that he will return in the near future.

[Ho] I heard that Mr. Xu Shijie, the former secretary of the Hainan Provincial CPC Committee, is in poor health and suffering from cancer. Is it true?

[Zeng] Anyway he is sick and being treated in a hospital. I do not have the specifics of his conditions.

[Ho] How is Liang Xiang? I heard that he was placed under house arrest last year in the barracks of the armed police in Haikou.

[Zeng] I do not know for sure. Anyway, he is no longer there now.

[Ho] Has he not returned to Shenzhen?

[Zeng] It is possible.

[Ho] How do Hainan's people appraise Xu Shijie and Liang Xiang?

[Zeng] I have not been in Hainan long enough and have not heard much talk about them. People speak rather highly of them, particularly of Xu Shijie. As to Liang Xiang, he also did much work, first in Shenzhen and then in Hainan. He made mistakes on certain questions, but we always divide one into two in looking at problems, and history will make a just conclusion.

Dodging Questions About the 4 June Incident

[Ho] As far as I know, Liang Xiang fell out of power not because his wife was involved in official profiteering, as reported by the newspapers, but mainly because he sent a telegram on 19 May 1989 in support of Zhao Ziyang...

[Zeng] It was reported in the newspapers. Let us believe the newspapers.

[Ho] Were any people arrested in Hainan during the 4 June incident? Were any people disposed of?

[Zeng] No. Unlike other places, Haikou was rather quiet.

[Ho] Was not the former editor in chief of the HAINAN RIBAO dismissed, who then went into hiding?

[Zeng] I do not know much about this person.

[Ho] It is said that since the 4 June incident many people of the democratic movement have fled to Hainan.

[Zeng] That is false information and speculation from the outside.

[Ho] Thank you for this interview.

Economic Development Problems, Prospects

91CE0773B Hong Kong CHING-CHI TAO-PAO
[ECONOMIC REPORTER] in Chinese No 27, 8 Jul 91
p 30

[Article by Chang Yi (4545 1837): "Economic Development Problems"]

[Text] The Taiwan economy is confronted with slow economic growth internationally and a changing industrial structure at home. However, driven by Taiwan's Six-Year Economic Construction Plan, private investment is expected to climb 2.3 percent this year after falling in the past. The economy is also expected to grow between 6 and 6.5 percent this year.

Three Major Future Worries, Six Major Immediate Concerns

Early this year Minister of Economic Affairs Vincent Siew identified the following as the four major stumbling blocks facing Taiwan's economy right now: 1) A reluctance to invest among private investors. Domestic investment fell 8.8 percent last year, an historic low. 2) The bottleneck in Taiwan's industrial structure remains. The overall strategy of transforming the industrial structure is still plagued by the dual problems of quality and quantity. 3) Individual interests have undermined the achievement of general goals. Pragmatism and utilitarianism permeate Taiwan society at the moment, impeding the realization of overall economic goals. 4) International realities are not favorable to the development of Taiwan's economy and trade.

A few days ago the economic construction advisory committee held a meeting to discuss the future worries and immediate concerns of Taiwan's economy and came up with the following, which cry out for solution:

The three major future worries are Taiwan's position and place in the world economy, its interacting relationship with the mainland, and its own internal environment.

The six major immediate concerns are: 1) Unemployment. While the unemployment rate is not high, the excessively large proportion of people employed in the service sector is a problem that needs to be resolved urgently. 2) Housing prices have remained stubbornly high, which has proved highly unpopular. 3) Laws and regulations have failed to keep pace with the times, hampering economic development. 4) The red light is on for democratic education and the relations between teachers and students. 5) Social problems caused by foreign workers. 6) The politicization of economic issues has dampened enterprise investment.

While Minister Siew's "four major stumbling blocks" and the advisory committee's "three future worries and six immediate concerns" are different in wording, they are essentially the same. Both point to the plight in which the Taiwan economy now finds itself and its vulnerabilities. The "three future worries and six immediate concerns" only elaborate the former and are more specific.

Concerning the three major future worries, members of the advisory committee who were present at the discussion believed that regional economies, particularly those in Europe and North America, would be the engine of world economic growth in the future. If Taiwan can form a regional economic entity with Hong Kong and the coastal areas of the mainland within 10 years, that will help boost its economy in the world. As for Taiwan's interacting relationship with the mainland, they believed that although economic reform on the mainland would not regress, ill-considered investment by Taiwan enterprises in the mainland might have negative consequences. The government should regulate such investment. And then there is Taiwan's own domestic environment. The advisory committee thought that of the array of problems confronting Taiwan now, such as technological upgrading, environmental protection, and a deteriorating social climate, the last is the most serious, as epitomized by the "poor-with-the-disease-of-the-rich" phenomenon. This refers to the fact that despite their per capita income of \$8,000, the people of Taiwan act like people in a society with a per capita income of \$20,000, opportunistic, loving comfort, and eschewing hard work.

Stimulating Private Investment

As they say, "It takes more than one cold day for the river to freeze three feet." The plethora of difficulties and problems facing the Taiwan economy did not come into being just in the last few years, but have been building up over a long period of time. It will also take a long period of time to solve them. Accordingly, the Taiwan media have been calling on the government to commit itself to putting the economic house in order, dismantling the structure of economic privilege, regulating government-business relations, improving economic laws and regulations, establishing a fair exchange environment, and taking effective measures to accelerate research and development and achieve higher technical standards. Only when the domestic environment and conditions have been transformed will there be a stronger desire by the private sector to invest. When the economic house is put in order, people will be less given to speculate or act myopically and the social climate will also get better.

Economic troubles have put the government under a good deal of pressure. Right now the Taiwan government hopes to expand domestic demand and stimulate the economy by launching the Six-Year Construction Plan. It also hopes to boost and sustain economic recovery by increasing participation by the private sector in the planning and investment channels. Private investment accounts for about 10 percent of Taiwan's gross national product, and is critical to the recovery of the economy because it is investment that drives productivity, competitiveness, and economic growth. The economy showed no signs of improvement in the first few months of this year and began to bounce back only in June. Although the economy grew 6.4 percent in the first

quarter of this year, private investment remained sluggish, dropping 6.5 percent in real terms, weaker than expected. This shows that the forces behind economic recovery are less than robust.

Recently, the Taiwan authorities acted to increase private participation in shaping the Six-Year Construction Plan. Among the measures taken are: 1) Solving the problem of land acquisition. Special legislation was passed to enable the government to take private land and offer incentives to encourage private individuals to sell land to the government or to participate in the construction plan directly with land. 2) Increase the channels through which the private sector invests in the construction plan. The government is considering offering special loans to private enterprises that invest in the Six-Year Plan, on preferential terms if necessary. Alternatively, the government may offer incentives to enterprises that propose to raise funds by issuing bonds. 3) Giving enterprises that invest in transportation and road projects the freedom to set their own schedule of charges (bridge tolls, for instance) in the future unhampered by public opinion or administrative organs. It remains to be seen whether these measures will succeed in reviving private investment.

Economy Projected To Grow 7 Percent in Second Half of Year

Most Taiwan experts take an attitude of guarded optimism toward the economy in the second half of this year. Barring serious political or economic incidents in the world and major problems in Taiwan's closest trading partners that may set back Taiwan's exports severely, they expect the Taiwan economy to grow 7 percent in the second half of the year. The reason is that the world economy has rebounded and demand has grown. After the Persian Gulf War ended, demand recovered in the Middle East, Europe, and the United States, boosting Taiwan exports. Second, a stable exchange rate and a drop in labor costs have helped keep the prices of Taiwan exports competitive. Moreover, light industry, whose output has declined because of an outward migration of plants, hit bottom in May and has since resumed growing, in turn fueling the expansion of the entire manufacturing sector. Besides, inroads have been made in the European market while exports to Eastern Europe, the Middle East, and South America have risen notably.

The improving economy no doubt shows that the measures taken by the government have worked to some extent. But a fundamental strategy is needed to solve the problems mentioned above.

Editorial on CPC Groups Within Organizations

91CE0110C Taipei CHING-CHI JIH-PAO in Chinese
7 Sep 91 p 2

[Editorial: "Guard Against the Establishment of Chinese Communists Organs Within Taiwan-Funded Organizations"]

[Text] Huang Kun-Hui [7806 2492 6540], Chairman of the Mainland China Affairs Committee of the Executive Yuan, revealed in a report last Thursday in the General Session of the Executive Yuan that the Chinese Communists intend to establish communist party organs within Taiwan-funded organizations in the mainland. After hearing this report, Premier Hao Pei-Ts'un stated that when Taiwanese firms invest indirectly in the mainland or trade directly with the mainland, it is a purely economic activity and has absolutely no connection with politics. He stated that ulterior motives lie behind this plan of the Chinese Communists. Premier Hao instructed the Ministry of Economic Affairs and the Mainland China Affairs Committee to formulate a response as quickly as possible, and he relayed the message to the Chinese Communists via the Taiwan Straits Exchange Foundation that we "absolutely reject this plan and do not welcome it." This should be considered an important issue in the burgeoning economic relationship across the Taiwan Straits. It merits our attention, and we must seek a resolution as quickly as possible.

Since visits to relatives in Mainland China were permitted in 1987, people in the Republic of China have been becoming rapidly involved in indirect investment, trade, and technical cooperation with the mainland. Particularly in the wake of the Tiananmen incident of two years ago, after which Europe, the United States and Japan temporarily suspended investments and loans to Mainland China, the Chinese Communists in the mainland have had an even greater need for Taiwanese funds, and they have adopted various concessionary measures to attract them. By early this year, the number of firms which had registered indirect investments in the mainland with the Ministry of Economic Affairs had surpassed 2,500, and the total value of the registered investments was \$750 million. It is not known how many firms have invested without registering. As for the actual value of total investments, there are no accurate statistics, and there are widely varying estimates, ranging from about \$2 billion to over \$4 billion. However, documents recently released by the Chinese Communists indicate that investments by Taiwanese firms in the mainland have undergone six types of changes: 1) Broadening—the geographical area to which Taiwanese investments are being directed is growing broader; 2) Deepening—the cooperation and contact between the two sides is growing ever deeper; 3) Higher—the level of technological cooperation is growing higher; 4) Bigger—the size of investments and investors is growing ever larger; 5) Longer—short-term investments in processing industries intended to yield quick profits are giving way to

long term investments in basic industry with recoupment times of 10 years or more; 6) Comprehensive—the scope of investments now covers the agricultural, industrial, and service sectors. The six changes described in this document show that the Chinese Communist authorities attach great significance to the expansion of Taiwanese investment in the mainland in recent years.

The Chinese communists welcome foreign investment, but in spite of the fact that they have adopted various concessionary measures in order to attract foreign funds and make up for the shortage of funds within the country, the real standard by which they measure any proposal for a foreign investment still "puts politics above all else." Particularly where Taiwanese investment is concerned, the objective of the Chinese communists is to "use businessmen to put pressure on the government." The Chinese communists are playing every trick in the bag to entice Taiwanese businessmen to become more deeply involved in economic activities in the Mainland. When the time is right, they can play the businessman card. Recently, for example, even some legislators demanded that the government permit direct flights between Taiwan and the Mainland, and the issue gained a lot of publicity and support. Although it was for their own interests that business people demanded direct flights, the issue dovetailed perfectly with the demand of the Chinese communists for direct flights in order to break through our government's "three no" policy. In order to preserve the security of the 20 million inhabitants of the Taiwan region, our government will never permit direct flights as long as relations between Taiwan and the Mainland have not entered upon the intermediate phase of the "National Reunification Outline," nor will it pay any heed to such demands. This policy is correct, and it should remind our citizens of the need for caution.

Not only has the effort by the Chinese communists to attract foreign and Taiwanese funds brought in funds and technology to make up for shortages within the country, but this effort has also done much to create jobs, increase production, earn foreign exchange, and promote economic prosperity. However, it is undeniable that the presence of foreign and Taiwanese funds in the Mainland is gradually causing the formation of a new economic power base, and the increasing influence of "bourgeois liberalization" is beginning to influence other enterprises as well as inland regions. For this reason, in order to prevent these enterprises from spreading the influence of liberalization, the Chinese communists find it especially necessary to keep tabs on Taiwan-invested enterprises, so they intend to set up party organs within Taiwan-invested enterprises in order to strengthen party leadership over these enterprises. There is nothing surprising about this, but not only will such an action encumber Taiwan-invested enterprises with red tape and decrease the efficiency of enterprise operations, but it would also violate our government's policy of separation between politics and economics, heighten the uncertainty of indirect investment in the mainland, and raise concerns about the future development of economic and

trade relations between Taiwan and the mainland. This problem deserves our attention. We completely support Premier Hao's statement that we "absolutely reject this plan and do not welcome it."

Taiwanese firms which have invested in the mainland have stated that according to the regulations of the communist party, any manufacturing enterprise which has hired five or more communist party members must set up a party organ, and this includes Taiwan-invested enterprises. In addition, according to scholars who have long studied Mainland China economic issues, it appears that such organs already exist in cooperative ventures and joint ventures, which represent two of the three types of foreign invested enterprises in the mainland. They have not yet been discovered in enterprises which are wholly owned by Taiwanese investors. For this reason, until the Ministry of Economic Affairs and the Mainland China Affairs Committee propose concrete measures to deal with this situation, we offer the following two suggestions, which we hope the Ministry of Economic Affairs will act upon immediately:

1. The "Guidance Team for Manufacturers Investing in the Mainland or Engaging in Technological Cooperation," which is under the Ministry of Economic Affairs, should immediately inform the 2,503 registered manufacturers of this situation, and it should advise firms with wholly owned facilities (about 70 percent of the 2,503) in the mainland to avoid hiring communist party members so as to deprive the party of its basis for forming communist party organs within their enterprises. This could save manufacturers a lot of headaches.
2. The Ministry of Economic Affairs and the Taiwan Straits Exchange Foundation should set up a liaison organization with manufacturers preparing to invest in the mainland. It must persuade everyone of the necessity of remaining unified, in the first place in order to guard against infiltration by communist party members, and in the second place in order to have enough maneuvering room to protest to the Chinese Communist authorities when a firm's interests are infringed upon.

Issue of Application for GATT Membership

92CE0026A Hong Kong CHING PAO [THE MIRROR]
in Chinese No 9, 5 Sep 91 pp 74-75

[Article by Sung K'o-han (1345 0344 1383): "Comprehensive Analysis of Issue of Taiwan Joining GATT"]

[Text] The issue of Taiwan joining GATT (full name General Agreement on Tariffs and Trade) has dragged on for a long time. Recently, because of President Bush's support, the Communist Chinese have shed the first ray of light by giving their conditional acceptance. However, if Taiwan is bent on "crashing the gate" and joining GATT before the Communist Chinese to push forward the objective of "one country, two governments," they will certainly encounter strong resistance from the Communist Chinese.

The United States Supports Taiwan Joining GATT

On the issue of GATT membership, the United States has always supported Taiwan joining this international organization. However, the problems of name, conditions, and procedure that blocked its joining have been difficult to solve. Therefore, the United States has always adopted a low profile, and thus the issue has dragged on and on. However, on 26 June this year, after 29 members of the Ways and Means Committee of the U.S. House of Representatives jointly sent a letter to President Bush strongly urging that he support Taiwan's application for GATT membership, there was a positive change in the situation. To get the support of these congressmen for his position on giving most-favored nation [MFN] treatment to China, in a 19 July letter of reply to Senator Baucus, Bush clearly stated that the United States, "under conditions that each member country can accept," supports Taiwan joining GATT. The letter clearly stated: "The United States will 'actively cooperate' with other member countries to solve the problem of Taiwan joining GATT 'in the most favorable way.'"

In order not to provoke the Communist Chinese, Bush, while expressing support for Taiwan joining GATT, did not forget at the end of his letter to stress that the United States still supports the position of "one China" and that Taiwan is a part of China has not changed because of support for Taiwan joining GATT. He hinted that, to avoid the appearance of "two Chinas," the United States will only support Taiwan joining GATT in the status of a "tariff zone," indicating that the United States will "handle this issue with circumspection."

At the same time that President Bush's letter of reply to the member of the U.S. Congress expressed support for Taiwan joining GATT, James Lilley, former U.S. ambassador to China, visited Taiwan as a private individual and had lengthy discussions there on the issue of Taiwan joining GATT. Expressing support for Taiwan joining GATT, he cheered Taiwan's high-ranking officials by saying: "My opinion is that Taiwan need not allow the Communist Chinese to dictate the way that Taiwan must go," maintaining that the international community should give Taiwan "an appropriate legal position." The letters of support from members of Congress, and also the declared position of the President and the former ambassador, of Taiwan's old friends, were, of course, most welcome. It is said that figures in Taiwan's government circles for this reason were, for a good number of days, basking in happy cheers, and that pro-Taiwan elements abroad engaged in lengthy discussions, thinking that their "ambition was about to be realized."

Attitude Expressed by Communist Chinese

The Communist Chinese have always maintained an attitude of opposition to Taiwan joining GATT. Not long ago Communist Chinese Foreign Minister Qian Qichen [6929 0366 3819], when answering reporters' question at a news conference, said that Taiwan is not a country, and basically is not qualified to join GATT.

However, there has recently been a change in the Communist Chinese attitude. The 19 August LIAOWANG (OVERSEAS EDITION) carried remarks by an official of China's Ministry of Economic Relations and Trade. He said: "Taiwan joining GATT can only be considered under two preconditions: first, it must be after China's position as a country in the GATT establishment is restored; and second, the Taiwan authorities must get the agreement of China's central government." Also, according to a 17 August XINHUA dispatch from Beijing, a Chinese government economic and trade delegation led by Tong Zhiguang [0157 1807 1694], vice minister of economic relations and trade, will leave for the United States within the next few days, and part of its mission will be to "consult" with the United States on the issue of China regaining its GATT seat. Relating to the time, which is nearing, when President Bush will approve MFN treatment for trade with China, Beijing has displayed both flexibility and principle on the GATT problem, which will be helpful to solving this problem.

According to a report in New York's COMMERCIAL DAILY citing a foreign news agency dispatch, the Communist Chinese are now preparing their latest "economic policy report," and in the scheduled Sino-American bilateral talks that will soon take place in Washington they will raise the issue of the application for GATT membership. It is said that this new report is a report that the GATT member countries demanded that the Communist Chinese submit so that they could evaluate the degree to which the Chinese mainland economy has broken away from "central" control. According to the COMMERCIAL DAILY, the official of the Communist Chinese "Ministry of Economic Relations and Trade" who is responsible for GATT affairs was quoted as saying: "It is predicted that substantial progress will be made this year on the case of Beijing's application for GATT membership." This official also taunted Taiwan: "If Taiwan thinks that it can get the support of more than two-thirds of GATT's votes, that is wishful thinking."

Background of Taiwan, GATT

According to CHUNG-KUO SHIH-PAO, on 21 May 1948 the "Republic of China," at the United States's request, formally signed and obtained GATT membership. In 1950, because of the international and domestic environments at that time, the actual benefits that Taiwan received were limited; therefore, with the United States's concurrence, it announced to the UN secretary general that it was withdrawing from GATT. But in February 1965 Taiwan obtained permission to again take part in GATT activities with the status of an observer. It attended certain GATT meetings, but because the relationship was not that of a member country, it did not have to do the work assigned by GATT; at the same time it did not have the right to vote. Thus, in October 1971, after Taiwan withdrew from the United Nations, its GATT observer status was also annulled, and it was expelled from GATT. On 1 January 1990, Ch'en Lu-an [7115 1462 1344], then minister of

economic affairs, in pursuit of "practical diplomacy, in the name of the "Taiwan-Pescadores-Quemoy-Matsu Independent Tariff Zone," formally reapplied for GATT membership. However, after the Communist Chinese learned that Taiwan had applied to rejoin GATT, they immediately sent a letter to GATT to prevent this, pointing out that Taiwan's application was illegal. In order not to offend the Communist Chinese, the United States caused the case of Taiwan's application to rejoin GATT to be shelved by GATT's highest body of authority—the Council. Recently, because of the issue of MFN treatment for the Communist Chinese, President Bush has expressed support for Taiwan's GATT membership, thereby causing this issue to be put again on GATT's agenda.

Support for Taiwan Joining GATT

In line with GATT's stipulated procedure for becoming a member, after a country (or independent tariff zone) applying to join GATT has sent its application to the general meeting secretariat, the Council, composed of 72 member countries, sets up an examining group to discuss the application. If the Council approves the application, the applying country must present a "foreign trade system memorandum" to the general meeting, and then conduct bilateral talks with each member country in an effort to get its support. If the applying country can get the support of more than two-thirds of the member countries (one country, one vote), then it may formally join GATT.

Ever since it applied to join GATT on 1 January 1990, Taiwan has employed "flexible diplomacy" measures in an effort to actively solicit help for its joining GATT. Now, after more than a year of such effort, Taiwan has established formal diplomatic relations with 29 countries. First of all, 16 of these countries—including the Dominican Republic, Costa Rica, Bolivia, Columbia, Haiti, Malawi, and El Salvador—have openly expressed support for Taiwan's GATT membership.

Next, among the countries of the West, Britain, France, Belgium, Luxembourg, and Ireland, as well as Canada and Japan, have expressed support for Taiwan's membership. Northern Europe's Sweden, Norway, Finland, and Denmark are also Taiwan's supporters. There are now 107 members of the GATT organization. If Taiwan continues to work hard and gets the support of 72 GATT member countries (or regions), there should be no problem. But if Taiwan is bent on "crashing the gate" and joining GATT before the Communist Chinese, then Taiwan will certainly encounter strong resistance from the Communist Chinese.

Although the United States has expressed support for Taiwan's GATT membership, the Communist Chinese "two preconditions" have a legal basis as well as support from a position of strength, which the United States must consider carefully. In the final analysis Beijing holds the decisive position in the international strategic structure and the United States will not try to save a little only to lose a lot.

Export Value Drops Sharply in August*91CE0010A Taipei CHING-CHI JIH-PAO in Chinese
5 Sep 91 p 2*

[Article by Ch'iu Chin-Lan (6726 6855 5695): "Export Value Drops Sharply in August; Plummets \$1 Billion From Record Level of July"]

[Text] The Ministry of Finance stated yesterday (4 September) that under the impact of expected appreciation of the new Taiwan dollar, total export value in August fell sharply from the record level of July, reaching only \$6.16 billion. If the new Taiwan dollar continues to appreciate, total exports may fall further in September.

The Ministry of Finance yesterday released figures from the customs service on imports and exports for August. Total export value in August was \$6.16 billion, an increase of 6.8 percent over the same period last year, but 13.5 percent lower than the record \$7.12 billion in July. The total value of imports in August was \$5.2 billion, 21.7 percent higher than during the same period last year. The export surplus of \$960 million was far below the average monthly surplus of \$1.6 billion over the previous three months.

According to the analysis of Yang Tsai-Yuen [2799 0961 0337], head of the Statistics Department in the Ministry of Finance, the drop in exports between July and August was primarily due to the fact that manufacturers, anticipating appreciation of the Taiwan dollar, rushed to ship goods in July, which left fewer exports for August. Another factor was the flooding in the mainland, which caused exports to Hong Kong to drop off.

With respect to imports, the purchase by Eva Airways of an aircraft worth more than \$100 million, as well as the import of \$300 million worth of crude oil by Chinese Petroleum caused the total value of exports in August to remain over \$5 billion.

With respect to foreign trade structure, Yang Tsai-Yuen stated that imports of agricultural and industrial raw materials as well as capital equipment increased the fastest (22.7 and 23.2 percent respectively). Yang stated that imports of agricultural and industrial raw materials and capital equipment are more beneficial to domestic economic growth than are imports of consumer goods.

According to custom service figures on imports and exports in August, cumulative export value from January through August was \$49.42 billion, an increase of 12.6 percent over the same period of last year, while import value totaled \$42.52 billion, an increase of 15.3 percent over the same period last year. The trade surplus of \$7.9 billion was 0.4 percent higher than for the same period of last year.

With respect to Taiwan's major trading partners, cumulative exports to the United States, Taiwan's largest export market, from January through August totaled \$14.24 billion, or 28.8 percent of all exports. With regard to imports, \$12.28 billion worth of goods (29.6 percent) came from Japan, which made Japan the largest supplier.

P'an Chih-Ch'i [3382 1807 1142], a professor of international trade at Soochow University, also stated yesterday that even though exports had fallen in August, this year's trade surplus could still be greater than \$10 billion. The trade surplus is one cause of the growth in money supply, and if the surplus should continue to expand, it could cause prices on the real estate and stock markets to rise once again, thus having a negative effect on the economy.

P'an Chih-Ch'i stated that according to August trade statistics from the customs service, this year's cumulative trade surplus from January through August is \$7.9 billion, and that the total trade surplus for the year could exceed \$10 billion. Assuming a GNP this year of \$160 billion, the trade surplus would be 6.25 percent of GNP, which is still a very high ratio and far higher than that of Japan (1.3 percent). Making a global comparison, the ratio of Taiwan's trade surplus is on the high side.

P'an stated that although it is hard to forecast imports and exports for the rest of the year after August, the trade surplus is expected to remain quite large. It bears watching to see whether this will cause a large increase in money supply, and lead to greatly increased prices for stock and land.

Cross-Straits Trade Benefits Both Sides*91CE0795A Taipei CHING-CHI JIH-PAO in Chinese
2 Sep 91 p 3*

[Article by Hou Chia-chu (0186 1367 7467): "Work Hard To Promote Cross-Straits Trade"]

[Text] People inside and outside government like to cite trade figures with Hong Kong to illustrate cross-straits trade. During the first half of this year, bilateral trade with Hong Kong totaled \$6,590,800,000, including \$5,647,200,000 in exports and \$943,600,000 in imports, for a surplus of \$4,703,600,000, or 88.29 percent of Taiwan's total trade surplus of \$5,327,300,000. If we equate Taiwan-Hong Kong trade with cross-straits trade, we cannot but be concerned about becoming overly dependent on the mainland economically. Because deducting the trade surplus with the mainland, Taiwan's foreign trade surplus exceeded \$600 million in the first half of 1991.

Actually, Taiwan-Hong Kong trade is not at all the same as cross-straits trade. According to customs statistics from the Hong Kong government, cross-straits trade transhipped through Hong Kong amounted to only \$2,539,000,000 in the first half of this year, just 38.5 percent of Taiwan-Hong Kong trade, including \$2,048,040,000 in exports transhipped through Taiwan, 36.27 percent of Taiwan's exports to Hong Kong, and \$491,380,000 in imports transhipped through Taiwan, 52.08 percent of imports from Hong Kong, resulting in a surplus of \$1,556,760,000, a mere 29.22 percent of Taiwan's total foreign trade surplus, or 33.1 percent of Taiwan's surplus with Hong Kong.

If we analyze cross-straits trade by commodity, goods transhipped through Taiwan and destined for the mainland consist mostly of industrial raw materials and parts and components. While the spread is wide, the bulk falls into these four categories: man-made fibers and fabrics, mechanical equipment, electronic and electrical parts and components, and plastic raw materials, which make up 66.24 percent of all transit exports. As for transit imports, herbal medicines, feathers, and fresh and frozen fish remain the top three items. Among the top 20 items, however, 15 have not been formally approved for indirect importation. These items account for 21.8 percent of transit imports. Judging from these figures, cross-straits trade fits the typical pattern of trade between an industrialized area and an agricultural area. But the fact that 15 of the top 20 transit import categories have not been officially approved by the Taiwan authorities indicates an urgent need to widen the scope of such trade in terms of commodity type so that what is being imported illegally now can be brought into Taiwan openly. As for the lack of diversity in transit exports, that is clearly a result of Taiwan businessmen investing in the mainland. In other words, those exports consist mainly of purchases by Taiwan investors in the mainland. Here the possibility of contracts being torn up suddenly is quite remote.

As for investment, Taiwan businessmen have now been branching out geographically from the coast toward the inland, even as far away as Xinjiang. In terms of dollar value, Taiwan investors nowadays are not as cautious or hesitant as before. Some projects involve as much as \$10 million. The recipients of the investment dollar have also been diversified to include agriculture and the service sector in addition to the manufacturing sector. Some people worry about an "outflow of industry" from Taiwan. But businessmen say that their roots remain in Taiwan; they only want the "mainland to produce the goods with Taiwan providing the foreign exchange."

However, whether we are talking about trade or investment, many people believe that if this situation continues, Taiwan will become more and more dependent on the mainland and fall deeper and deeper into the Communist Chinese political trap. These people want cross-straits relations to cool off. Actually even if Taiwan becomes more dependent on the mainland economically, there is nothing to suggest that Taiwan will be politically ensnared. To put it differently, we do not know whether or not trade across the straits is risky, but we do know for sure it is beneficial.

Economically and politically cross-straits trade and economic relations have positive results. Let us look at the economic aspects first. A huge market of over 1 billion people is coveted by the entire world. Blood being thicker than water, we should be the first to be there. How can we just give it up, ignoring the development of Taiwan industry and commerce at the same time? The mainland's ample low-cost labor and raw materials as well as its wealth of science and technology that has not yet been commercialized will serve our industry well by

lowering production costs and increasing its international competitiveness. If we hand over these natural advantages to our competition, they will turn into disadvantages for us. In the short run, the mainland market contributes to the Taiwan economy in at least three ways: 1) Diffuses pressure from the United States. In the past couple of years Taiwan's ballooning trade surplus with the States has put it under enormous pressure from the States to diversify its markets. The mainland serves as the regulating reservoir for its exports perfectly and will enable it to drastically cut its dependence on the U.S. market. 2) Accelerate industrial modernization. In recent years Taiwan industry has been undergoing a structural transformation based on the "elimination of the old and modernization." Investing in the mainland provides an outlet for Taiwan's sunset industries. 3) Shortening the recession. While the global economy is still in a slump, Taiwan was the first to bounce back as early as June. (In years past economic recovery in Taiwan usually trailed that of the States by one quarter.) A major reason is the rapid growth in exports to the mainland.

Politically, cross-straits trade and economic ties will ease tension between the two sides in the short haul. In the long run, they could contribute to peaceful reunification and promote peaceful change in the mainland by bridging the gaps in living standards and ideology between the two sides.

Lester Thurow, the American economist currently visiting Taiwan, said that Taiwan's future role depends to a large extent on how the situation develops on the mainland. If the mainland opts for a market economy, Taiwan would become the center of capital, technology, and management skills and, in that capacity, exert a good deal of influence. Otherwise, Taiwan may become isolated and the role it would play naturally would also be different.

As they say, "the spectator sees most clearly." The American expert's words should give us much food for thought. We should let cross-straits trade and economic activities develop naturally and make the most of the situation to help steer the mainland toward economic liberalization. Since the economic role and future of Taiwan depend on whether the mainland is headed for a market economy, people both inside and outside government should put themselves in the shoes of the mainlanders and help them solve their economic problems. For instance, we may hire economic experts, Chinese and foreign, to do research and project the problems that may be encountered in the course of economic transformation and offer solutions. If the mainland accepts the suggested solutions, they will be doing themselves and us a favor.

To sum up, since the economies on the two sides of the straits are bound by a common cause, cross-straits trade is not a zero sum game. The two sides should work together to promote bilateral economic relations. Because of the events in the Soviet Union, however, Taiwan businessmen interested in investing in China should take a wait-and-see attitude.

Monopoly Capitalism Taking Shape*91CM0556A Hong Kong MING PAO in Chinese
9 Aug 91 p 32*

[Article by Ch'en Wen-hung (7115 2429 7703): "The Increasing Formation of Political and Economic Monopolies Is the Greatest Threat to Hong Kong During the Transition Period Leading Up to 1997"]

[Text] While the greatest threat to Hong Kong during the transition period has always been from internal factors, the source of the threat has changed somewhat since the Chinese and British governments reached agreement on Hong Kong's new airport.

Before this agreement was reached, the Hong Kong government's British colonial bureaucrats displayed a high degree of independence during the dispute over the new airport. This reflected their considerable political maneuverability in taking advantage of the divisions between the Chinese and British governments in order to try to gain a certain amount of political initiative in the special political climate of the transition period. On one hand, they joined up with some of Hong Kong's monopoly capitalist groups in order to increase their political mobility and support in both Hong Kong and Great Britain. On the other hand, they mobilized the media and social groups under their control into a huge show of force to demonstrate in Hong Kong society their support to the Chinese and British governments. In the negotiations between the Chinese and British governments, both of these actions enhanced the political capital of this handful of British colonial bureaucrats who dominate Hong Kong's government.

The problem was that the Chinese government drew a political bottom line from which it refused to budge so that the plans for the new airport were dependent on Chinese government support to win enough financing to be carried out; the Hong Kong government's political independence lacked the economic and financial support either to build the new airport on its own in spite of everything or to force the Chinese government to make concessions. This impasse naturally triggered direct intervention by the sovereign British government which offset the attempt of this group of British colonial bureaucrats to take advantage of the opportunity to gain political independence and initiative; it forced the Hong Kong government to accept the agreement that was reached through direct negotiation between the British and Chinese governments. This shows that this handful of British colonial bureaucrats lacked political wisdom and skill, overrated their own strength, and have never been able to develop statesmanlike political capabilities.

It is believed that the agreement that was reached on the plans for the new airport has thoroughly dampened the spirits and morale of the British colonial bureaucrats. This battle of wills shows that the Chinese and British governments can no longer either trust the Hong Kong government, or allow its colonial bureaucrats to take such arbitrary and rash actions. While a few of these bureaucrats may be dismissed (or retired) within a year

or two and be made to take the responsibility for this political conflict, it will be impossible, despite such personnel changes, for the Hong Kong government quickly to regain the political decisionmaking power and initiative that it has had in recent years. In addition to laying down the general framework of Hong Kong's policy orientation, the Chinese and British governments will also closely control the steps taken by the Hong Kong government. As 1997 is less than six years away, it will certainly not be easy for the Chinese and British governments to rebuild their faith in the administrative capability of the Hong Kong government bureaucrats in such a short period of time. Thus, it may be said that due to the ignorant and headstrong actions of a few British colonial bureaucrats, the relative political independence of the Hong Kong colonial government during the transition period has been completely lost in one stroke. Of course, the political decisionmaking power and democracy of the colonial government are far from what they should be (despite the propaganda of Li Chu-ming [2621 2691 6900] and the Hong Kong United Democratic Alliance which says that unless the colonial government holds a high degree of decisionmaking power before 1997, it will be impossible for Hong Kong to have a high degree of decisionmaking power after 1997). However, as far as Hong Kong's newborn political system is concerned and as long as the colonial government is totally under the control of the Chinese and British governments, most of Hong Kong's newly born political forces will neither know how to deal, nor have direct relations and contacts with the Chinese and British governments. Thus, even after the direct elections for some legislative seats in September 1991, it will still be hard for Hong Kong's popular political forces to wrest more policy and decisionmaking power from the hands of the colonial government. This will certainly be a great obstacle to the development of popular and democratic government in Hong Kong and to the development of a highly autonomous form of government in Hong Kong after 1997.

This impact will be felt mainly after 1997. During the transition period before 1997, the issue will not be democracy or a high degree of autonomy but rather economic monopolies and the attacks that they will make on Hong Kong's capitalistic political, economic, and social systems.

Hong Kong's capitalism did not start out as non-monopoly or laissez-faire capitalism. Hong Kong's economics and politics were both monopolized by British business groups and the comprador class until the 1970's, and the original British business groups in the age of capitalist mercantilism put their investment focus on trade and the real estate that was derived from it. While the capital from textiles that was transferred from Shanghai to Hong Kong in the 1950's moved within independent circles and promoted Hong Kong's industrial development before the 1970's, it certainly did not present a direct challenge to British business group monopolies, which gradually shifted their investments out of Hong Kong in the 1960's. What truly shook the

British business group monopolies was the rapid growth, beginning in the 1970's, of Hong Kong Chinese financial groups, including those that invested their capital in manufacturing electronics, textiles, and plastics for the United States and Japan and those that expanded from manufacturing into fields such as real estate, banking, trade, and shipping. In this process, the Hong Kong government gradually abandoned its representation by the aristocratic families of the comprador class by promoting rising industrialists and professionals to Hong Kong's advisory political makeup and by channeling them into government controlled political positions as colonial bureaucratic government subordinates and supporters. This played a great role in changing British business group monopolies. To a certain extent, it also helped colonial bureaucrat groups and the Hong Kong government to win relative independence and decision-making power, as opposed to their former control by British business groups. In addition, the greater financial resources provided to the Hong Kong government by Hong Kong's economic development increased the government's economic independence, its resources, and its capabilities for economic and political involvement.

However, while British business groups were still entrenched in trade and real estate, the shift of the Yihe Group's investment focus overseas and the sale of the Huitfeng and Hechi groups left British business groups less profitable than Hong Kong Chinese groups which surpassed them in Hong Kong's vigorous economic growth of the 1970's and 1980's. Thus, Hong Kong Chinese financial groups headed by Li Chia-ch'eng [2621 0857 6134] gradually replaced the British business groups in Hong Kong's economics and politics. The Hong Kong and Shanghai Banking Corporation also changed from a purely British business group agency to a representative agency with more extensive assets, including some Hong Kong Chinese financial groups.

Along with the growing strength of Hong Kong Chinese financial groups, Hong Kong's economic monopolies were also increasingly strengthened. While the British business groups had adhered to distinctive mercantilist features in the age of monopolies by limiting themselves to trade and real estate, as their successors engaged only in trade that was concentrated in highly commercialized central districts, a huge amount of economic room was left for other capital development. Controlled by the British business group, the colonial government's non-monopolistic laissez-faire policy of persistently working in coordination with mercantilism was actually a typical colonial government policy of as little investment as possible and no long-range development.

However, after Hong Kong Chinese financial groups had replaced British business group monopolies, the relatively non-monopolistic laissez-faire economic and political policies of the 1960's and 1970's gradually underwent a great change in the 1980's. The monopolistic scope of Hong Kong Chinese financial groups expanded into many economic fields and rising entrepreneurs were actually forced to look for growth opportunities only in newly opened up mainland Chinese

markets and production bases. It was precisely the Hong Kong Chinese financial groups' investment focus on economic fields other than trade, in addition to sharp international competition, that made the Hong Kong Chinese financial groups so likely to lean towards taking advantage of their government investment and involvement in order to enhance their competitive and monopolistic capabilities, to maintain their continued development, and to preserve their high profit margins. These tendencies towards political and economic integration and official and commercial collusion had already become increasingly manifest in the 1980's and in the last half of the 1980's in particular. It is only the continued existence of internal competition among Hong Kong Chinese financial groups, in addition to the involvement of mainland Chinese capital, that has curbed the full broadening of the scope of monopolies and kept this tendency from growing into a threat to the people's livelihood.

The controversy over the plans for the new airport should be the last expression of the Hong Kong colonial government's independent and decisionmaking capabilities, even though it was of course backed up by a considerable amount of financial group encouragement and support. While a high degree of self-sufficiency by Hong Kong's colonial government would not necessarily be favorable to Hong Kong's economic, political, or social development, its setback certainly opens up the following new opportunities for the development of monopoly capitalism in Hong Kong:

1. The colonial government bureaucrats must consider their future positions. Because the great restrictions that are coming in 1997 will be placed mainly on them, they must either make job plans for after their retirement or for early retirement by taking advantage of their positions to use government resources to curry favor with large financial groups so that they can continue to hold high positions with large salaries after they leave their current ones. Alternatively, in order to find ways to continue their official careers after 1997 and thus become dependent on the Chinese government, they must rope popular political organizations or figures into taking a policy approach of ingratiating opportunism. Either of these actions would damage the rationality of Hong Kong government policy during the transition period. Moreover, it is British bureaucrats who hold power over the major issues in the dictatorial Hong Kong colonial government, and it will be hard for them to continue to hold their jobs after 1997. Their collusion with large Hong Kong financial groups and use of government controlled resources to support the further monopolization of monopoly groups is very likely to become a major trend in Hong Kong during the coming years of the transition period.

2. Chinese government limitations must be considered. On one hand, the Chinese government's limited understanding of Hong Kong reflects to a certain extent a lack of understanding of the international development and the nature of capitalism among the Chinese officials

concerned. As China's Hong Kong-Macao policy is based on misconceptions plus irrational political considerations, it is going to be hard for it to have any effective or rational normative impact on Hong Kong's development during the transition period. On the other hand, China is now in a stage of capitalist restoration in which the investment tendencies of its relatively independent enterprises or capital have evolved through economic reform and often have a distinctive flavor of the early stage of capitalism and even that of mercantilism. Not only are fraud and embezzlement prevalent, but investment methods and aims also lack the overall and long-range considerations of current international capitalism and even a sense of responsibility for social and environmental protection. It is very likely that such mainland Chinese capital invested in Hong Kong will seek short-term profits unscrupulously. The chaotic situation of mainland Chinese companies in Hong Kong in the late 1980's is a clear case in point.

The colonial government's loss of independence since the agreement was reached on the new airport has been a further blow to the confidence of British business groups concerning continued expansion in Hong Kong. The Hong Kong and Shanghai Banking Corporation's moving of its books can be seen as an indication that British business group monopolies have begun to collapse. Until Japanese groups have established strong monopolies in Hong Kong, Hong Kong Chinese groups may take advantage of this economic and political gap to further enhance their monopolies in Hong Kong and are even more likely to wrest influence over the colonial government from the British business groups and to form a new stage of political and economic integration and official and commercial collusion. The Chinese government's mistaken Hong Kong policy is based on a simple and unrealistic united front policy instead of political analysis. In light of the shortsighted actions of mainland Chinese companies, Hong Kong Chinese groups are very likely to absorb mainland Chinese groups and even to use various methods to buy or join up with the responsible concerned Chinese government officials in order to form in Hong Kong a coalition of politically and economically integrated monopolies that includes the Chinese and Hong Kong governments and mainland Chinese and Hong Kong capital. While this may help to stabilize Hong Kong's political and economic superstructure during the transition period, it is believed that the Hong Kong Chinese groups will still dominate this coalition of monopolies, while mainland Chinese companies will act only as subordinate partners in the cooperation. The internationalization and the lack of a long-range sense of belonging to Hong Kong by the Hong Kong Chinese groups is likely to leave these

political and economic monopolies with a tendency to grab as much as they can of the capital that Hong Kong has worked so hard to accumulate in all areas and to transfer it overseas; Hong Kong Chinese groups will gradually evolve into transnational corporations. For them, this will turn Hong Kong into an economic colony, just as it was for British business groups in the 1970's and 1980's.

Hong Kong's current high real estate prices and inflation are due precisely to a process of the redistribution of Hong Kong's internal wealth from the people to increasingly monopolized Hong Kong Chinese groups in which the tyrannical process of Hong Kong's colonial government is playing a helping role. It can even be said that without the cooperation of Hong Kong government policy in all areas, it would have been hard for real estate prices and inflation to reach such a high level or to achieve such a growth momentum as they have at present. In addition to having mainland Chinese companies taking part in local investment or profitmaking, the Chinese government fully included the Hong Kong government's plans and timetables in the agreement that it reached on the new airport. Moreover, in having reached this agreement in such a short period of time, it actually cooperated with the policies of high real estate prices and inflation of mainland Chinese groups and Hong Kong's colonial government.

Since agreement was reached on the new airport, Hong Kong's greatest threat is that Hong Kong Chinese groups will manipulate and push, and Hong Kong's colonial government and the Chinese government will cooperate in order to push Hong Kong's capitalism into a highly monopolized stage.

From the present to 1997, the development of democratic government in Hong Kong will certainly be limited, and popular political groups will also lack vigor, political standing, and professional capability. In addition, the shortsighted tendencies and political speculation produced by those holding of foreign passports will make it impossible for some leaders to oversee or restrict Hong Kong's colonial government. Thus, it will be hard to control the pursuit of high profits by this coalition of monopolies, a coalition which is composed of Hong Kong Chinese groups, Hong Kong's colonial government, and the Chinese government. Consequently, social conflicts will become increasingly severe. If economic problems are experienced either during the transition period before 1997 or afterwards, Hong Kong society will tend to undergo severe crises. Moreover, the development of monopoly groups in Hong Kong may also have a severely distorting impact on the course of China's economic reforms.

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